

*In the opinion of Bingham Summers Welsh and Spilman, LLP, Indianapolis, Indiana ("Bond Counsel"), under existing laws, interest on the Series 2001 A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2001 A Bonds. In the opinion of Bond Counsel under existing laws, interest on the Series 2001 A Bonds is exempt from income taxation in the State of Indiana for all purposes except the Indiana financial institutions tax. See "TAX MATTERS" and Appendix C herein.*

**\$7,055,000**  
**INDIANA BOND BANK**  
**Special Program Bonds, Series 2001 A**

**Dated:** July 1, 2001

**Due:** February 1 As Shown on the Inside Cover

The Indiana Bond Bank Special Program Bonds Series, 2001 A (the "Series 2001 A Bonds") will initially be dated July 1, 2001, and will bear interest from that date to their respective maturities in the amounts and at the rates set forth on the inside front cover. The Series 2001 A Bonds are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the Series 2001 A Bonds will be made in book-entry-only form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers of beneficial interests in the Series 2001 A Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interests in the Series 2001 A Bonds. Interest on the Series 2001 A Bonds is payable on February 1 and August 1 of each year, commencing February 1, 2002. The principal of, redemption premium, if any, and interest on the Series 2001 A Bonds will be paid directly to DTC by National City Bank of Indiana, as trustee (the "Trustee") under the Indenture, as defined and described herein, so long as DTC or its nominee is the registered owner of the Series 2001 A Bonds. The final disbursement of such payments to the Beneficial Owners of the Series 2001 A Bonds will be the responsibility of the DTC Participants and the Indirect Participants, all as defined and more fully described herein under the caption "THE SERIES 2001 A BONDS-Book-Entry-Only System."

The Series 2001 A Bonds are issued by the Indiana Bond Bank (the "Bond Bank") for the principal purposes of (1) providing funds for the purchase of securities of certain Qualified Entities as defined and described herein; (2) funding a debt service reserve fund; and (3) paying costs related to the issuance of the Series 2001 A Bonds including the bond insurance premium to FINANCIAL SECURITY ASSURANCE INC. all as more fully described in this Official Statement.

The Series 2001 A Bonds are subject to optional, mandatory sinking fund and extraordinary mandatory redemption prior to maturity as described herein under the caption "THE SERIES 2001 A BONDS-Redemption."

**The Series 2001 A Bonds are limited obligations of the Bond Bank payable solely out of the revenues and funds of the Bond Bank pledged therefor under the Indenture. The Series 2001 A Bonds do not constitute a debt, liability or loan of the credit of the State of Indiana (the "State") or any political subdivision thereof, including any Qualified Entity under the constitution and laws of the State or a pledge of the faith, credit and taxing power of the State or any political subdivision thereof, including any Qualified Entity. The source of payment of, and security for, the Series 2001 A Bonds are more fully described herein. The Bond Bank has no taxing power.**

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(A detailed maturity schedule is set forth on the inside cover)

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The scheduled payment of principal of and interest on the Series 2001 A Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2001 A Bonds by FINANCIAL SECURITY ASSURANCE INC.



The Series 2001 A Bonds are offered when, as and if issued by the Bond Bank and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality by Bingham Summers Welsh and Spilman, LLP, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed on for the Bond Bank by counsel for the Issuer, Barnes & Thornburg, Indianapolis, Indiana, and for the Underwriter by its counsel, McHale, Cook & Welch, p.c., Indianapolis, Indiana. It is expected that the Series 2001 A Bonds will be available for delivery to DTC in New York, New York on or about July 24, 2001.

*This cover page contains information for reference only and is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.*

**Dain Rauscher Incorporated**

\$7,055,000  
Indiana Bond Bank  
Special Program Refunding Bonds, Series 2001 A

<u>Maturity Date</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Yield</u>
2002	\$110,000.00	4.500%	2.750%
2003	395,000.00	4.500	3.300
2004	525,000.00	4.500	3.590
2005	560,000.00	4.500	3.780
2006	585,000.00	4.250	3.930
2007	305,000.00	4.500	4.110
2008	315,000.00	4.500	4.270
2009	330,000.00	4.500	4.390
2010	345,000.00	4.500	4.490
2011	360,000.00	4.500	4.590
2012	380,000.00	4.700	4.750
2013	255,000.00	4.800	4.850
2014	265,000.00	4.900	4.950

\$1,150,000.00 5.100% Term Bonds due February 1, 2018 - Yield 5.230%

\$1,175,000.00 5.125% Term Bonds due February 1, 2022 - Yield 5.310%

## **INDIANA BOND BANK**

### **Board of Directors**

Tim Berry, Chairman, Ex Officio

Clark H. Byrum, Vice Chairman

Charles W. Phillips

Russell Breeden, III

Joseph T. Morrow

C. Kurt Zorn

Marni McKinney

### **Officer of the Bond Bank**

J. June Midkiff, Executive Director

### **Trustee**

National City Bank of Indiana

Indianapolis, Indiana

### **Indiana Bond Bank Counsel**

Barnes & Thornburg

Indianapolis, Indiana

### **Bond Counsel**

Bingham Summer Welsh & Spilman, LLP

Indianapolis, Indiana

No dealer, broker, salesperson or other person has been authorized by the Bond Bank or by the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering of the Series 2001 A Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2001 A Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there have been no changes in the information presented herein since the date hereof.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and Exhibit F, Specimen "Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2001 A Bonds; or (iii) the tax exempt status of the interest on the Series 2001 A Bonds.

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2001 A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

**THE SERIES 2001 A BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE BOND BANK AND THE TERMS OF THE OFFERING, INCLUDING THE MERIT AND RISK INVOLVED. THE SERIES 2001 A BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

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## **OFFICIAL STATEMENT**

**\$7,055,000**

### **Indiana Bond Bank Special Program Bonds, Series 2001 A**

## **INTRODUCTION**

The purpose of this Official Statement, including the cover page and appendices, is to set forth certain information concerning the issuance and sale by the Indiana Bond Bank (the "Bond Bank") of its \$7,055,000 aggregate principal amount of Special Program Bonds, Series 2001 A (the "Series 2001 A Bonds") to be issued by the Bond Bank. The Series 2001 A Bonds are authorized by Resolutions adopted by the Board of Directors of the Bond Bank on March 13, 2001 and June 12, 2001 (together, the "Resolutions") and are issued pursuant to the provisions of a Trust Indenture, dated as of July 1, 2001, between the Bond Bank and the Trustee (as hereinafter defined) (the "Indenture"), and the laws of the State of Indiana, including particularly Indiana Code 5-1.5-1, (as amended from time to time, the "Act"). National City Bank of Indiana is the Trustee, Registrar and Paying Agent (the "Trustee," "Registrar" or "Paying Agent") under the Indenture.

The proceeds from the sale of the Series 2001 A Bonds will be used to provide funds to (a) purchase the Series 2001 A Qualified Obligations identified in Appendix B of this Official Statement (collectively, the "Series 2001 A Qualified Obligations"), (b) fund a portion of the Reserve Requirement established by the Indenture, and (c) pay all of the Costs of Issuance (as defined in Appendix E) of the Series 2001 A Bonds, including the underwriter's discount and the bond insurance premium paid to Financial Security Assurance, Inc. See the heading "PLAN OF FINANCING."

Upon the delivery of the Series 2001 A Bonds and receipt of the net proceeds therefor, the Bond Bank shall deliver to the Trustee a portion of the proceeds of the Series 2001 A Bonds for deposit (1) into the Debt Service Reserve Fund, the amount of \$705,500.00 to partially fund the Reserve Requirement of \$846,491.26. Interest earnings on funds held within the Debt Service Reserve Fund (net of any required transfers to the Rebate Fund) will be accumulated within the Debt Service Reserve Fund until the amount on deposit equals the Reserve Requirement of \$846,491.26; (2) into the Bond Issuance Expense Account, the sum of \$103,332.61, to pay Costs of Issuance (other than underwriter's discount retained by the Underwriter and the bond insurance premium paid by the Underwriter directly to the Series 2001 A Bond Insurer for and on behalf of the Bond Bank); and (3) into the General Account \$6,168,276.11 which is the remainder of the net proceeds, of which \$6,147,011.25 will be used for payments to the Qualified Entities identified in Appendix B, and \$21,264.86 will be used to pay a portion of the interest on the Series 2001 A Bonds as more fully described in this Official Statement under the headings "PLAN OF FINANCING" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

The summaries of and references to all documents, statutes and other instruments referred to in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the full text of each such document, statute or instrument. Summaries of certain provisions of the Indenture and definitions of some of the capitalized words and terms used in this Official Statement are set forth in Appendix D and Appendix E. Terms not defined herein shall have the respective meanings ascribed thereto in the Indenture.

Information contained in this Official Statement with respect to the Bond Bank and the Qualified Entities and copies of the Indenture and the Authorizing Instruments may be obtained from the Indiana Bond Bank, 2980 Market Tower, 10 West Market Street, Indianapolis, Indiana 46204. The Bond Bank's telephone number is (317) 233-0888.

## **THE SERIES 2001 A BONDS**

### **General Description**

The Series 2001 A Bonds are issuable as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. The Series 2001 A Bonds will carry an original date of July 1, 2001, and will carry the date on which it is authenticated.

Interest on the Series 2001 A Bonds will be payable semi-annually on February 1 and August 1 of each year, commencing February 1, 2002 (each an "Interest Payment Date"). The Series 2001 A Bonds will bear interest (calculated on the basis of a 30-day month and a 360-day year) at the rates and will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. If a Series 2001 A Bond is authenticated on or prior to January 15, 2002, it shall bear interest from July 1, 2001. Each Series 2001 A Bond authenticated after January 15, 2002, shall bear interest from the most recent Interest Payment Date to which interest has been paid on the date of authentication of such Series 2001 A Bond unless such Series 2001 A Bond is authenticated after a Record Date and on or before the next succeeding Interest Payment Date, in which event the Series 2001 A Bond will bear interest from such next succeeding Interest Payment Date.

When issued, all Series 2001 A Bonds will be registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests from DTC in the Series 2001 A Bonds will be made in book-entry-only form (without certificates) in the denomination of \$5,000 or any integral multiple thereof. So long as DTC or its nominee is the registered owner of the Series 2001 A Bonds payments of the principal of and interest on the Series 2001 A Bonds will be made directly by the Trustee by wire transfer of funds to Cede & Co., as nominee for DTC. Disbursement of such payments to the participants of DTC (the "DTC Participants") will be the sole responsibility of DTC, and the ultimate disbursement of such payments to the Beneficial Owners, as defined herein, of the Series 2001 A Bonds will be the responsibility of the DTC Participants and the Indirect Participants, as defined herein. See the heading, "Book-Entry-Only System" under this caption.



If DTC or its nominee is not the registered owner of the Series 2001 A Bonds, principal of and premium, if any, on all of the Series 2001 A Bonds will be payable at maturity upon the surrender thereof at the principal corporate trust office of the Paying Agent. Interest on the Series 2001 A Bonds, when due and payable, will be paid by check dated the due date mailed by the Paying Agent one business day prior to the due date (or, in the case of an owner of Series 2001 A Bonds in an aggregate principal amount of at least \$1,000,000, by wire transfer on such due date, upon written direction of such registered owner to the Paying Agent not less than five business days before the Record Date immediately prior to such Interest Payment Date, which direction shall remain in effect until revoked in writing by such owner) to the persons in whose names such Series 2001 A Bonds are registered, at their addresses as they appear on the bond registration books maintained by the Registrar on the Record Date, irrespective of any transfer or exchange of such Series 2001 A Bonds subsequent to such Record Date and prior to such Interest Payment Date unless the Bond Bank shall default in payment of interest due on such Interest Payment Date.

Except as provided under "Book-Entry-Only System," in all cases in which the privilege of exchanging or transferring Series 2001 A Bonds is exercised, the Bond Bank will execute and the Registrar will deliver Series 2001 A Bonds in accordance with the provisions of the Indenture. The Series 2001 A Bonds will be exchanged or transferred at the corporate trust operations office of the Registrar only for Series 2001 A Bonds of the same tenor and maturity. In connection with any transfer or exchange of Series 2001 A Bonds, the Bond Bank or the Trustee may impose a charge for any applicable tax, fee or other governmental charge incurred in connection with such transfer or exchange, which sums are payable by the person requesting such transfer or exchange.

The person in whose name a Series 2001 A Bond is registered will be deemed and regarded as its absolute owner for all purposes and payment of principal and interest thereon will be made only to or upon the order of the registered owner or its legal representative, but such registration may be changed as provided above. All such payments shall be valid to satisfy and discharge the liability upon such Series 2001 A Bond to the extent of the sum or sums so paid.

## **Redemption**

*Optional Redemption.* The Series 2001 A Bonds maturing on or after February 1, 2012 are subject to redemption prior to maturity on or after February 1, 2011, in whole or in part on any date as selected by the Bond Bank, at a redemption price equal to the principal amount of each Series 2001 A Bond to be redeemed, plus accrued interest to the redemption date, and without any redemption premium.

*Mandatory Redemption.* The Series 2001 A Bonds (or any portions thereof in integral multiples of \$5,000 each) maturing on February 1, 2018 (the "2018 Term Bonds"), are also subject to mandatory sinking fund redemption prior to their maturity date at a redemption price equal to the principal amount of such 2018 Term Bond, plus accrued interest on February 1 of each year as shown in the following table:

<b>Year</b>	<b>Principal Amount</b>
2015	\$280,000.00
2016	\$295,000.00
2017	\$315,000.00
2018*	\$260,000.00

\*Final Maturity

The Series 2001 A Bonds (or any portions thereof in integral multiples of \$5,000 each) maturing on February 1, 2022 (the "2022 Term Bonds"), are also subject to mandatory sinking fund redemption prior to their maturity date at a redemption price equal to the principal amount of such 2022 Term Bond, plus accrued interest on February 1 of each year as shown in the following table:

<b>Year</b>	<b>Principal Amount</b>
2019	\$270,000.00
2020	\$285,000.00
2021	\$300,000.00
2022*	\$320,000.00

\*Final Maturity

The 2018 Term Bonds and the 2022 Term Bonds are hereinafter collectively referred to as the "Term Bonds." Under the Indenture, selection of Term Bonds to be redeemed will be made by lot by the Trustee. In accordance with DTC's standard practices and its agreement with the Bond Bank, DTC and the DTC Participants will make this selection so long as the Series 2001 A Bonds are in book entry form. The principal amount of Term Bonds to be redeemed on each date set forth above will be subject to reduction by the principal amount of any such Term Bonds of the same maturity which, not less than 45 days prior to a sinking fund redemption date, have been theretofore surrendered to or purchased by the Trustee for cancellation and canceled, all in accordance with the Indenture. The principal amount of any Term Bonds so surrendered and canceled in excess of the principal amount scheduled for redemption in any one year will be credited against future redemption obligations and the principal amounts of Term Bonds subject to sinking fund redemption at such times will be accordingly reduced.

*Extraordinary Mandatory Redemption.* The Series 2001 A Bonds are also subject to extraordinary mandatory redemption in whole or in part, at any time, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, from and to the extent that moneys are deposited in the Redemption Account from an extraordinary redemption of a Qualified Obligation or from proceeds received upon a default on a Qualified Obligation,

unless such moneys can be invested at a yield calculated in accordance with the Code as defined in Appendix E over any period of time ending on any subsequent Interest Payment Date which equals or exceeds the average interest rate on the Outstanding Series 2001 A Bonds provided that in the Opinion of Bond Counsel as defined in Appendix E such investment would not cause any of the Series 2001 A Bonds to be "arbitrage bonds" as defined in the Code or otherwise cause the interest on the Series 2001 A Bonds to be includable in gross income of the owners thereof for federal income tax purposes.

*Cash Flow Certificate.* Prior to any optional or extraordinary mandatory redemption of any Series 2001 A Bonds, the Bond Bank will be required under the Indenture to deliver or to cause to be delivered to the Trustee a Cash Flow Certificate (as defined in Appendix E) to the effect that, giving effect to such redemption, Revenues expected to be received, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any.

*Notice of Redemption.* In the case of redemption of the Series 2001 A Bonds, notice of the call for any such redemption identifying the Series 2001 A Bonds, or portions of fully registered Series 2001 A Bonds, to be redeemed will be given by mailing a copy of the redemption notice by first class, registered or certified mail not less than 30 days nor more than 45 days prior to the date fixed for redemption to the Registered Owner of the Series 2001 A Bonds to be redeemed at the address shown on the registration books of the Trustee. Failure to give such notice by mailing, or any defect thereof with respect to any Series 2001 A Bonds, shall not affect the validity of any proceedings for the redemption of any other Series 2001 A Bonds. All Series 2001 A Bonds so called for redemption shall cease to bear interest on the specified redemption date, shall no longer be protected by the Indenture and shall not be deemed to be outstanding under the provisions of the Indenture, provided funds for their redemption are on deposit at the place of payment at that time.

*Redemption Payments.* Prior to the date fixed for redemption, there must be on deposit with the Trustee sufficient funds to pay the Redemption Price of the Series 2001 A Bonds called, together with accrued interest on the Series 2001 A Bonds to the redemption date. After the redemption date, if prior notice of redemption by mailing has been given and sufficient funds have been deposited with the Trustee, interest will cease to accrue on the Series 2001 A Bonds that have been called.

### **Book-Entry-Only System**

DTC will act as securities depository for the Series 2001 A Bonds. The ownership of one fully registered Series 2001 A Bond for each maturity of the Series 2001 A Bonds will be registered in the name of Cede & Co., as nominee for DTC.

DTC has advised the Bond Bank that DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as

amended. DTC holds securities that its participants (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain custodial relations with a DTC Participant, either directly or indirectly (the "Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of beneficial interests in the Series 2001 A Bonds will be made in book-entry-only form. Purchasers of beneficial interests in the Series 2001 A Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Series 2001 A Bonds. Interest on the Series 2001 A Bonds, together with principal of the Series 2001 A Bonds, will be paid by the Paying Agent directly to DTC, so long as DTC or its nominee is the registered owner of the Series 2001 A Bonds.

Purchases of Series 2001 A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2001 A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2001 A Bond is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2001 A Bonds are to be accomplished by entries made on the books of all participants acting on behalf of Beneficial Owners. Beneficial Owners of Series 2001 A Bonds will not receive certificates representing their beneficial ownership interests in the Series 2001 A Bonds unless use of the book-entry-only system for the Series 2001 A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2001 A Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 2001 A Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2001 A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2001 A Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to Beneficial Owners of the Series 2001 A Bonds will be governed by arrangements among DTC, DTC Participants, Indirect Participants and Beneficial Owners, subject to any statutory and regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Series 2001 A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Series 2001 A Bonds. Under its usual procedures, DTC will mail an Omnibus Proxy to the Bond Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2001 A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2001 A Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instruments and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such participant and not of DTC, the Trustee, or the Bond Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Bond Bank or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2001 A Bonds at any time by giving reasonable notice to the Bond Bank or the Trustee. Under the circumstances, in the event that a successor securities depository is not obtained, Series 2001 A Bond certificates are required to be printed and delivered.

The Bond Bank may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2001 A Bond certificates will be printed and delivered.

THE INFORMATION PROVIDED IMMEDIATELY ABOVE UNDER THIS CAPTION HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE BOND BANK OR THE UNDERWRITER AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

For so long as the Series 2001 A Bonds are registered in the name of DTC or its nominee or any successor securities depository or its nominee, the Bond Bank and the Trustee will recognize only DTC or its nominee or such successor securities depository or its nominee as the registered owner of the Series 2001 A Bonds for all purposes including payments, notices and voting.

Under the Indenture, payments made by the Trustee to DTC or its nominee or any successor securities depository or its nominee shall satisfy the Bond Bank's obligations under the Indenture to the extent of the payments so made.

Neither the Bond Bank nor the Trustee shall have any responsibility or obligation with respect to:

(i) the accuracy of the records of DTC, its nominee or any DTC Participant or Indirect Participant or any successor securities depository, participants thereof or nominee thereof with respect to any beneficial ownership interest in the Series 2001 A Bonds;

(ii) the delivery to any DTC Participant or Indirect Participant or participant of any successor securities depository or any other person, other than a registered owner, as shown in the Bond Register, of any notice with respect to any Series 2001 A Bond, including, without limitation, any notice of redemption;

(iii) the payment to any DTC Participant or Indirect Participant or participant of any successor securities depository or any other person, other than a registered owner, as shown in the Bond Register, of any amount with respect to the principal of, premium, if any, or interest on, or the purchase price of any Series 2001 Bond;

(iv) any consent given by DTC or any successor securities depository as registered owner;  
or

(v) the selection by DTC or any Direct Participant or Indirect Participant by any successor depository or its participants of the beneficial ownership interests in Series 2001 A Bonds for partial redemption.

So long as the Series 2001 A Bonds are held in the book-entry-only system of the securities depository, the Bond Bank and Trustee may treat DTC and any successor securities depository as, and deem DTC and any successor securities depository to be, the absolute owner of the Series 2001 A Bonds for all purposes whatsoever, including, without limitation:

(i) the payment of the principal of, premium, if any, and interest on and the purchase price of the Series 2001 A Bonds;

(ii) giving notices of redemption and other matters with respect to the Series 2001 A Bonds;

(iii) registering transfers with respect to the Series 2001 A Bonds; and

(iv) the selection of the beneficial ownership interests in Series 2001 A Bonds for partial redemption.

### **Revision of Book-Entry-Only System**

In the event that either (i) the Bond Bank receives notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities as a clearing agency for the Series 2001 A Bonds or (ii) the Bond Bank elects to discontinue its use of DTC as a clearing agency for

the Series 2001 A Bonds, then the Bond Bank and the Trustee will do or perform or cause to be done or performed all acts or things, not adverse to the rights of the holders of the Series 2001 A Bonds, as are necessary or appropriate to discontinue use of DTC as a clearing agency for the Series 2001 A Bonds and to transfer the ownership of each of the Series 2001 A Bonds to such person or persons, including any other clearing agency, as the holder of such Series 2001 A Bonds may direct in accordance with the Indenture. Any expenses of such a discontinuation and transfer, including any expenses of printing new certificates to evidence the Series 2001 A Bonds, will be paid by the Bond Bank.

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

The Series 2001 A Bonds will be issued under and secured by the Indenture. The principal of, redemption premium, if any, and interest on any and all of the Series 2001 A Bonds, together with any Refunding Bonds that may be authorized and issued by the Bond Bank under the Indenture on a parity with the Series 2001 A Bonds (collectively, the "Bonds"), are payable from those revenues and funds of the Bond Bank which, together with the Series 2001 A Qualified Obligations and all other qualified obligations pledged under the Indenture (collectively, the "Qualified Obligations"), are pledged pursuant to the Indenture for the benefit of the owners of the Bonds equally, ratably and without priority.

Neither the faith, credit nor taxing power of State of Indiana (the "State") or any political subdivision thereof including the Qualified Entities (as defined in Appendix E), is pledged to the payment of the principal of, redemption premium, if any, and interest on any of the Bonds. The Bonds are not a debt, liability, loan of the credit or pledge of the faith and credit of the State or of any political subdivision thereof including the Qualified Entities. The Bond Bank has no taxing power and has only those powers and sources of revenue set forth in the Act. The Bonds are issued and secured separately from any other obligations issued by the Bond Bank. The sources of payment of, and security for, the Bonds are more fully described below.

Under the Indenture, the Bonds are secured by a pledge to the Trustee of the Qualified Obligations and all principal and interest payments made or required to be made on the Qualified Obligations (the "Qualified Obligation Payments"), as described therein. In addition, the Indenture pledges to the payment of the Bonds all proceeds of the Trust Estate, including without limitation all cash and securities held in the funds and accounts created by the Indenture, except for the Rebate Fund and the accounts thereunder, together with investment earnings thereon and proceeds thereof (except to the extent transferred to the Rebate Fund from such Funds and Accounts under the Indenture), and all other funds, accounts and moneys to be pledged by the Bond Bank to the Trustee as security under the Indenture, to the extent of any such pledge. Under the Act and Indiana Code 5-1-14-4, such pledge is valid and binding from and after the date of delivery of the Series 2001 A Bonds under the Indenture and such Qualified Obligations and the Qualified Obligation Payments thereon shall be immediately subject to the lien of such pledge without any physical delivery of the payments or further act, and the lien of such pledge is valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Bond Bank, irrespective of whether such parties have notice thereof. The Qualified Obligation Payments with respect to the Series 2001 A Qualified Obligations have been structured as of the date of issuance of the Series 2001 A Bonds to be sufficient along with

earnings thereon, and other money in the Funds and Accounts under the Indenture and the earnings thereon, to pay the principal of and interest on the Series 2001 A Bonds when due.

### **Provisions for Payment of the Qualified Obligations**

The payment of principal of and interest on the Qualified Obligations is derived by each of the Qualified Entities from revenues or, in some cases, taxes required by law to be levied or collected by or on behalf of the Qualified Entity. Each of the Qualified Obligations has been issued pursuant to a separate detailed resolution, ordinance or indenture of the governing body of the respective Qualified Entity (collectively and individually, the "Authorizing Instruments"). The sources of payment on the Qualified Obligations are further described below.

*Tax-Based Obligations.* Political subdivisions in Indiana may issue general obligation bonds and special taxing district bonds payable from unlimited ad valorem taxes and secured by the full faith and credit of the political subdivision or the special taxing district involved.

Each year, political subdivisions in Indiana are required to meet to fix a budget, establish a tax rate and determine the tax levy for the ensuing budget year. The officers of each political subdivision are required by the provisions of Indiana Code 6-1.1-18-3(b) to fix tax rates which are sufficient to provide funds to pay, among other things, the principal of and interest on any obligation of the political subdivision described therein. The appropriation is reviewed by the State Board of Tax Commissioners to ascertain that the amount of the appropriation is sufficient to meet the political subdivision's debt service obligations. Upon review, the State Board of Tax Commissioners is authorized by the provisions of Indiana Code 6-1.1-17-17 to increase the tax rate and tax levy of a political subdivision to pay, among other things (i) the principal and interest upon a fund, refunding or judgment funding obligation of the political subdivision, (ii) principal and interest upon an outstanding obligation of a political subdivision, or (iii) lease rentals of a political subdivision.

*Revenue-based Obligations.* The payment of principal of and interest on certain of the Series 2001 A Qualified Obligations is being derived solely from parking garage revenues. The City of Fort Wayne and Allen County own and operate the Plaza Parking Garage (the "Parking Garage") located immediately north and adjacent to One Main Street, Fort Wayne, Indiana, which Parking Garage is subject to a condominium regime under Indiana law. To facilitate the management and operation of the Parking Garage, the City of Fort Wayne and Allen County formed the Plaza Parking Garage Condominium Owners' Association, Inc., an Indiana not-for-profit corporation (the "Association"). The Association is governed by a Board of Directors, the members of which are selected by the City of Fort Wayne and Allen County pursuant to the terms of the Association's By-laws. The Association has entered into a Concession Agreement with a third-party property management company, under which the property management company operates the Parking Garage during specified hours and collects fees and payments pursuant to an established rate schedule developed by the Association and the property manager. This rate schedule may be revised from time to time by the Association and the property manager. The Association distributes net parking revenues received from the property manager to the City of Fort Wayne and Allen County in accordance with their respective ownership interests in the Parking Garage. The City of Fort Wayne and Allen County have pledged those



net revenues to the repayment of their respective Series 2001 A Qualified Obligations which are not a general obligation of either the City of Fort Wayne or Allen County.

See Appendix B for additional information concerning the provisions for payment of the Series 2001 A Qualified Obligations.

### **Enforcement of the Qualified Obligations**

As owner of the Qualified Obligations, the Bond Bank has available to it all remedies available to owners or holders of securities issued by Qualified Entities. The Act provides that upon the sale and the delivery of any Qualified Obligation to the Bond Bank, a Qualified Entity will be deemed to have agreed that all statutory defenses to nonpayment are waived in the event that such Qualified Entity fails to pay principal of or interest on such Qualified Obligation when due.

In the case of a Qualified Obligation that is a special taxing district bond or other tax-based obligation, under the Act, upon nonpayment and demand for payment and if the necessary funds are not available in the treasury of the Qualified Entity for such payment, an action in mandamus will lie for the levy of a tax to make such payment. The Bond Bank will be constituted a holder or owner of securities that are in default. The Bond Bank is obligated under the Indenture to avail itself of all remedies and provisions of law applicable in the circumstances, and the failure to exercise any right or remedy within a time or period provided by law may not, according to the Act, be raised as a defense by the defaulting Qualified Entity.

Further, each Qualified Entity, whose Qualified Obligations are subject to the Code, has agreed under the purchase agreement for its respective Qualified Obligation to report to the Bond Bank on its compliance with certain covenants which the Qualified Entity has made regarding various actions and conditions necessary to preserve the tax exempt status of interest paid on the Qualified Obligations. See the caption "TAX MATTERS." The Bond Bank has also determined to consult with the Qualified Entities, as necessary from time to time, with regard to the action needed to be taken by the Qualified Entities to preserve the exclusion of the interest on the Series 2001 A Bonds from the gross income of the holders of the Series 2001 A Bonds.

The Bond Bank will monitor the compliance and consult regularly with the Qualified Entities with respect to their respective requirements under the Qualified Obligations, including the making of Qualified Obligation Payments to the Bond Bank.

### **Additional Bonds**

Additional bonds of the Bond Bank may be issued on a parity with the Series 2001 A Bonds pursuant to the Indenture only for the purpose of (a) refunding (in whole or in part) Bonds issued by the Bond Bank pursuant to the Indenture or (b) purchasing additional qualified obligations of the Qualified Entities ("Refunding Qualified Obligations") to provide for the refunding (in whole or in part) of the Qualified Obligations or another Refunding Qualified Obligation, or both.

## **Debt Service Reserve Fund**

The Act authorizes and the Indenture requires the Board of Directors of the Bond Bank to establish and maintain the Debt Service Reserve Fund in which there is to be deposited or transferred:

(i) Moneys available to the Bond Bank from proceeds of the sale of the Series 2001 A Bonds initially established under the Indenture in the amount of \$705,500;

(ii) All money required to be transferred to the Debt Service Reserve Fund for the replenishment thereof from another Fund or Account under the Indenture;

(iii) All money appropriated by the State for replenishment of the Debt Service Reserve Fund; and

(iv) Any other available money or funds that the Bond Bank may decide to deposit in the Debt Service Reserve Fund.

Under the Indenture, the Debt Service Reserve Fund is required to contain an amount equal to the maximum annual debt service on all Outstanding Bonds (the "Reserve Requirement"). The initial deposit to the Debt Service Reserve Fund equals 10% of the stated principal amount of the Bonds, which amount partially funds the Reserve Requirement. Interest on this amount will accumulate in the Debt Service Reserve Fund (net of any required transfers to the Rebate Fund) until the balance in the Debt Service Reserve Fund is equal to the initial Reserve Requirement. Thereafter, such amount will be decreased on the first day of each year to the maximum annual debt service on all Outstanding Bonds in the present or any succeeding Fiscal Year. Such amount will be invested and used to make a portion of the annual principal and semi-annual interest payments on the Bonds.

As permitted by the Act, the Indenture provides that, for purposes of computing amounts in the Debt Service Reserve Fund, Investment Securities, as defined in Appendix E, purchased as an investment of moneys in such Fund will be valued at their amortized cost. Moneys in the Debt Service Reserve Fund from time to time will be invested pursuant to the Investment Agreement and it is anticipated that such investment and the earnings thereon will be used to pay a portion of the principal of and interest on the Series 2001 A Bonds. However, there can be no assurance that such moneys or the earnings thereon will be available, if and when needed, to pay debt service on the Series 2001 A Bonds. For further information regarding the Investment Agreement and the nature of and requirements for the investment of the Debt Service Reserve Fund, see "RISKS TO THE OWNERS OF THE SERIES 2001 A BONDS. "

Except as provided in the Indenture, moneys in the Debt Service Reserve Fund will be held and applied to the payment of the principal of and interest on the Bonds in cases where sufficient funds are not available in other Funds and Accounts for such payments.

## **State Appropriations Mechanism**

The Act provides that the State General Assembly may annually appropriate to the Bond Bank for deposit in the Debt Service Reserve Fund any sum, required by the Act to be certified

by the Chairman of the Board of Directors of the Bond Bank to the State General Assembly prior to December 1 of any year, as may be necessary to restore the Debt Service Reserve Fund to the amount then required to be on deposit in the Debt Service Reserve Fund to satisfy the Reserve Requirement. The Indenture further requires such certification to be made by the Chairman to the State General Assembly on or before August 1 of any fiscal year of the Bond Bank ( "Fiscal Year") in which the amount in the Debt Service Reserve Fund is projected to be less than the Reserve Requirement. However, nothing in these provisions or any other provision of the Act creates a debt or liability of the State to make any payments or appropriations to or for the use of the Bond Bank. There can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that in the event the State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. The Bond Bank has previously issued and has outstanding as of the date of this Official Statement an aggregate principal amount of approximately \$173,025,000 in separate program obligations secured by debt service reserve funds, which are also eligible for annual appropriations from the General Assembly.

In accordance with the Constitution of the State, the State General Assembly meets for a maximum period of 61 legislative days in every odd-numbered year in order to establish a budget and to make appropriations. The State General Assembly also meets for a maximum period of 30 legislative days in intervening years in order to make supplemental appropriations. Because the State General Assembly meets for only a portion of each year, there can be no representation or assurance that the State General Assembly could, if it elected to do so, take timely action upon a certificate from the Chairman of the Board of Directors of the Bond Bank in order to provide funds to avoid a default in the payment of principal of or interest on the Bonds.

Also under the Act, the State has pledged to and agreed with the owners of the bonds or notes of the Bond Bank not to limit or restrict the rights vested in the Bond Bank by the Act to fulfill the terms of any agreements made with the owners of such bonds or notes or in any way impair the rights or remedies of such owners until the bonds and notes, together with interest thereon, and interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such owners are fully met, paid and discharged.

### **AGREEMENT WITH THE STATE**

The Act provides that the State will not limit or restrict the rights vested in the Bond Bank to fulfill the terms of any agreement made with the owners of the Series 2001 A Bonds or in any way impair the rights or remedies of the owners of the Series 2001 A Bonds or in any way impair the rights or remedies of the owners of the Series 2001 A Bonds for so long as the Series 2001 A Bonds are outstanding.

## **BOND INSURANCE**

### **Bond Insurance Policy**

Concurrently with the issuance of the Series 2001 A Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Series 2001 A Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **Financial Security Assurance Inc.**

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At March 31, 2001, Financial Security's total policyholders' surplus and contingency reserves were approximately \$1,430,595,000 and its total unearned premium reserve was approximately \$730,490,000 in accordance with statutory accounting principles. At March 31, 2001, Financial Security's total shareholders' equity was approximately \$1,547,252,000 and its total net unearned premium reserve was approximately \$600,774,000 in accordance with generally accepted accounting principles.

The financial statements included in exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Series 2001 A Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Series 2001 A Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series 2001 A Bonds or the advisability of investing in the Series 2001 A Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

## **RISKS TO OWNERS OF THE SERIES 2001 A BONDS**

Purchasers of the Bonds are advised of certain risk factors with respect to the payment of the Series 2001 A Bonds. This discussion is not intended to be all-inclusive, and other risks may also be present.

The ability of the Bond Bank to pay principal of, and interest on, the Series 2001 A Bonds depends primarily upon the receipt by the Bond Bank of payments pursuant to the Series 2001 A Qualified Obligations, including interest at the rates provided therein, together with earnings on the amounts in the Funds and Accounts sufficient to make such payments. Except for the Debt Service Reserve Fund, there is no source of funds which is required to makeup for any deficiencies in the event of one or more defaults by one or more Qualified Entities in such payments on the Series 2001 A Qualified Obligations. There can be no representation or assurance that all of the Qualified Entities that issued the Series 2001 A Qualified Obligations will receive sufficient taxes or revenues, as the case may be, or otherwise have sufficient funds available to make their required payments on the Series 2001 A Qualified Obligations. The receipt of such revenues by any Qualified Entity is subject to, among other things, future economic conditions, actions by creditors, and other conditions which are variable and not certain of prediction. For a description of procedures for providing for the payment of the Series 2001 A Qualified Obligations, see the captions "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Provisions for Payment of the Qualified Obligations."

The State General Assembly may determine to appropriate funds to the extent of any deficiency in the Debt Service Reserve Fund (see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - State Appropriations Mechanism"). However, the State General Assembly is not and cannot be obligated to appropriate any such funds. Moreover, the State General Assembly meets for only a portion of each year commencing in January and ending not later than April 30, unless extended by a special session called by the Governor, and there can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that in the event the State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. In no event can or will the Series 2001 A Bonds be deemed to be a debt or obligation of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - State Appropriations Mechanism."

It is expected that the amounts held under the Indenture (the "Investment Amounts") will be invested in the Investment Agreement entered into by and among the Bond Bank, Trustee and Bayerische Landesbank Girozentrale, or another financial institution (the "Financial Institution") currently rated in one of the two highest rating categories by Standard & Poor's Rating Group. It is anticipated that the Investment Amounts, together with the earnings thereon, pursuant to the terms of the Investment Agreement will be used to pay all or a portion of principal and interest on the Series 2001 A Bonds. However, there can be no assurance that the Financial Institution

will be able to return the Investment Amounts and the earnings thereon on a timely basis or at the rates contemplated under the Investment Agreement. In the event that the Financial Institution fails to return the Investment Amounts or the earnings thereon on a timely basis or at the rates contemplated under the Investment Agreement, the Investment Amounts and the earnings thereon may be unavailable to pay debt service on the Series 2001 A Bonds. Similarly, there can be no assurance that, in the event of the insolvency, bankruptcy or similar deterioration in financial condition of the Financial Institution, the Investment Amounts and the earnings thereon will be available, if needed, to pay debt service on the Series 2001 A Bonds.

The Bond Bank has covenanted under the Indenture to take all qualifying actions and not to fail to take any qualifying actions required to assure the continuing exclusion of interest on the Series 2001 A Bonds from gross income for Federal Income Tax purposes. Failure by the Bond Bank to comply with such covenants could cause the interest on the Series 2001 A Bonds to be taxable retroactive to the date of issuance. Also, in connection with the original purchase of each of the Qualified Obligations, the Bond Bank received an opinion of counsel by a nationally recognized firm experienced in matters relating to municipal law and matters relating to the exclusion of interest payable on obligations of states and their instrumentalities and political subdivisions from gross income under federal tax law, acceptable to the Bond Bank and the Trustee (an "Opinion of Bond Counsel"), for the Qualified Entity to the effect that conditioned upon continuing compliance by a Qualified Entity with certain covenants made in connection with the issuance of such Qualified Obligations, the interest on the Qualified Obligations is excluded from the gross income of the holder thereof for federal income tax purposes under existing statutes, decisions, regulations and rulings. However, the interest on such Qualified Obligations could become taxable in the event that the Qualified Entity fails to comply with certain of such covenants, including without limitation the covenant to rebate or cause to be rebated, if necessary, to the United States government all arbitrage earnings with respect to its Qualified Obligations under certain circumstances and the covenant to take all actions and to refrain from such actions as may be necessary to prevent such Qualified Obligations from being deemed to be "private activity bonds" under the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2001 A Bonds and any applicable regulations promulgated thereunder (the "Code"). Such an event could in turn adversely affect the exempt status of the interest on all of the Series 2001 A Bonds retroactive to the date of issuance. See the caption "TAX MATTERS." The Bond Bank is not aware of any circumstances that would cause the interest on the Qualified Obligations to be includable for purposes of federal income tax under the Code, but has not undertaken any investigation in connection with this Official Statement.

The remedies available to the Trustee, to the Bond Bank or to the owners of the Bonds upon the occurrence of an Event of Default under the Indenture or under the terms of any of the Qualified Obligations or the Investment Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the "United States Bankruptcy Code"), the remedies provided in the Indenture, the Qualified Obligations, and the Investment Agreement may not be readily available or may be limited.

## **PLAN OF FINANCING**

### **Purchase of Series 2001 A New Money and Refunding Qualified Obligations**

The Bond Bank will use a portion of the proceeds of the Series 2001 A Bonds to purchase the Series 2001 A Qualified Obligations identified in the table in Appendix B of this Official Statement. Each of the Qualified Entities issuing the Series 2001 A Qualified Obligations have represented to the Bond Bank that the Qualified Entity will use the proceeds received by it in the sale of the Series 2001 A Qualified Obligations to the Bond Bank to pay for a portion of the costs of the public works projects or to refund certain outstanding obligations, all as identified in its respective Authorizing Instrument.

### **APPLICATION OF PROCEEDS OF THE SERIES 2001 A BONDS**

Set forth below is a summary of the sources and uses of the proceeds of the Series 2001 A Bonds, exclusive of accrued interest from the dated date of the Series 2001 A Bonds to delivery:

The proceeds of sale of the Series 2001 A Bonds (exclusive of accrued interest which will be deposited in the General Account of the General Fund) will be applied as follows:

For deposit in the Debt Service Reserve Fund	
To partially fund the Reserve Requirement .....	\$705,500.00
For deposit in the Bond Issuance Expense Account of the	
General Fund for payment of the costs of issuing the	
Series 2001 A Bonds.....	103,332.61
For deposit in the General Account of the General Fund .....	6,147,011.25

### **THE INDIANA BOND BANK**

The Bond Bank was created in 1984, and is organized and existing under and by virtue of the Act as a separate body corporate and politic, constituting an instrumentality of the State for the public purposes set forth in the Act. The Bond Bank is not an agency of the State, but is separate from the State in its corporate and sovereign capacity and has no taxing power.

Under separate trust indentures and other instruments authorized under the Act, the Bond Bank has previously issued and had outstanding as of June 1, 2001, an aggregate principal amount of approximately \$1,375,626,709 in separate program obligations not secured by the Indenture, approximately \$1,202,626,684 of which obligations are not secured by debt service reserve funds eligible for annual appropriation by the State General Assembly. Additionally, as of the date of this Official Statement, the Bond Bank is considering undertaking other types of financing for qualified entities for purposes authorized by and in accordance with the procedures set forth in the Act. The obligations issued by the Bond Bank in connection with any and all such financing, if any, will be secured separately from the Series 2001 A Bonds and will not constitute Bonds under the Indenture or for purposes of this Official Statement.

## **The Act**

Pursuant to the Act, the purpose of the Bond Bank is to assist "qualified entities", defined in the Act to include political subdivisions, as defined in Indiana Code 36-1-2-13, state educational institutions, as defined in Indiana Code 20-12-0.5-1, leasing bodies, as defined in Indiana Code 5-1-1-1(a), any commissions, authorities or authorized bodies of any qualified entity, and any organizations, associations or trusts with members, participants or beneficiaries that are all individually qualified entities. The Bond Bank provides such assistance through programs of, among other things, purchasing the bonds, notes or evidences of indebtedness of such qualified entities. Under the Act, qualified entities include entities such as cities, towns, counties, school corporations, library corporations, special taxing districts, state educational institutions and nonprofit corporations and associations which lease facilities or equipment to such entities. Each of the entities listed in Appendix B is a "qualified entity" within the meaning of the Act.

## **Powers Under the Act**

Under the Act, the Bond Bank has a perpetual existence and is granted all powers necessary, convenient or appropriate to carry out its public and corporate purposes including, without limitation, the power to do the following:

1. Make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the Bond Bank or pertaining to a loan to or a lease or an agreement with a qualified entity, a purchase, acquisition or a sale of qualified obligations or other investments for the performance of its duties and execution of its powers under the Act;
2. Purchase, acquire or hold qualified obligations or other investments for the Bond Bank's own account or for a qualified entity at such prices and in a manner as the Bond Bank considers advisable, and sell or otherwise dispose of the qualified obligations or investments at prices without relation to cost and in a manner the Bond Bank considers advisable;
3. Fix and establish terms and provisions upon which a purchase or loan will be made by the Bond Bank;
4. Prescribe the form of application or procedure required of a qualified entity for a purchase or loan and enter into agreements with qualified entities with respect to each purchase or loan;
5. Render and charge for services to a qualified entity in connection with a public or private sale of any qualified obligation, including advisory and other services;
6. Charge a qualified entity for costs and services in review or consideration of a proposed purchase, regardless of whether a qualified obligation is purchased, and fix, revise from time to time, charge and collect other Program Expenses properly attributable to qualified entities;



7. To the extent permitted by the indenture or other agreements with the owners of bonds or notes of the Bond Bank, consent to modification of the rate of interest, time and payment of installments of principal or interest, security or any other term of a bond, note, contract or agreement of any kind to which the Bond Bank is a party;

8. Appoint and employ general or special counsel, accountants, financial advisors or experts, and all such other or different officers, agents and employees as it requires;

9. In connection with any purchase, consider the need for and desirability or eligibility of the qualified obligation to be purchased, the ability of the qualified entity to secure financing from other sources, the costs of such financing and the particular public improvement or purpose to be financed or refinanced with the proceeds of the qualified obligation to be purchased by the Bond Bank;

10. Temporarily invest moneys available until used for making purchases, in accordance with the indenture or any other instrument authorizing the issuance of bonds or notes; and

11. Issue bonds or notes of the Bond Bank in accordance with the Act bearing fixed or variable rates of interest in aggregate principal amounts considered necessary by the Bond Bank to provide funds for any purposes under the Act; provided, that the total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed any aggregate limit imposed by the Act, currently fixed at \$1,000,000,000. Such aggregate limit of \$1,000,000,000 does not apply to (i) bonds or notes issued to fund or refund bonds or notes of the Bond Bank; (ii) bonds or notes issued for the purpose of purchasing an agreement executed by a qualified entity under Indiana Code 21-1-5; (iii) bonds, notes or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5; and (iv) bonds, notes, or other obligations if funds and investments, and the anticipated earned interest on those funds and investments, are irrevocably set aside in amounts sufficient to pay the principal, interest, and premium on the bonds, notes, or obligations at their respective maturities or on the date or dates fixed for redemption.

Under the Act, the Bond Bank may not do any of the following:

1. Lend money other than to a qualified entity;
2. Purchase a security other than a qualified obligation to which a qualified entity is a party as issuer, borrower or lessee, or make investments other than as permitted by the Act;
3. Deal in securities within the meaning of or subject to any securities law, securities exchange law or securities dealers law of the United States, the State or any other state or jurisdiction, domestic or foreign, except as authorized by the Act;
4. Emit bills of credit or accept deposits of money for time or demand deposit, administer trusts or engage in any form or manner, or in the conduct of, any private or commercial banking business or act as a savings bank, savings and loan association or any other kind of financial institution; or
5. Engage in any form of private or commercial banking business.

## **Organization and Membership of the Bond Bank**

The membership of the Bond Bank consists of seven Directors: the Treasurer of State, serving as Chairman Ex Officio, the Director of the State Department of Financial Institutions, appointed by the Governor and serving as Director Ex Officio, and five Directors appointed by the Governor of the State. Each of the five Directors appointed by the Governor must be a resident of the State and must have substantial expertise in the buying, selling and trading of municipal securities or in municipal administration or public facilities management. Each such Director will serve for a three-year term as set forth below and until a successor is appointed and qualified. Each such Director is also eligible for reappointment and may be removed for cause by the Governor. Any vacancy on the Board is filled by appointment of the Governor for the unexpired term only.

The Directors elect one Director to serve as Vice Chairman. The Directors also appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer. The powers of the Bond Bank are vested in the Board of Directors, any four of whom constitute a quorum. Action may be taken at any meeting of the Board by the affirmative vote of at least four Directors. A vacancy on the Board does not impair the right of a quorum to exercise the powers and perform the duties of the Board of Directors of the Bond Bank.

### **Directors**

The following persons, including those persons with the particular types of experience required by the Act, comprise the present Board of Directors of the Bond Bank:

Tim Berry, Treasurer of the State of Indiana, February 10, 1999-present, and Chairman Ex Officio. Residence: Indianapolis, Indiana, Member, Indiana State Board Finance; Vice Chairman, Indiana Housing Finance Authority; Secretary-Investment Manager, Indiana Board for Depositories; Member, Governing Board of the Indiana Department of Revenue; Treasurer, Indiana State Office Building Commission; Treasurer, Indiana Recreational Development Commission; Trustee, Indiana State Police Pension Fund; Board Member, Indiana Transportation Finance Authority.

Clark H. Byrum, Vice Chairman; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and President, The Key Corporation, Indianapolis, Indiana, 1977 to present; Chairman of the Board, American State Bank of Lawrenceburg, Aurora and Greendale, Indiana, 1990 to present; Board Member, NCB Corporation and NorCen Bank, 1986 to present; Member, American Bankers Association; Member, Indiana Bankers Association; Member, National Association of Life Underwriters.

Charles W. Phillips, Director of the Indiana Department of Financial Institutions, 1989 to present, and Director Ex Officio, serving at the pleasure of the Governor. Residence: New Albany, Indiana. Director Ex Officio, Indiana Housing Finance Authority; President, Floyd County Bank, New Albany, Indiana, 1962-1985; Former Examiner, Federal Deposit Insurance Corporation.

Russell Breeden, III, Director; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and CEO, Community First Financial Group, Inc., 1993 to present. Director, English State Bank, 1993 to present; Chairman, Peoples Trust Bank Company, 1994 to present; Chairman, Peninsula Banking Group, 1995 to present; Chairman, Bay Cities National Bank, 1995 to present; Director and President, Bettenhausen Motorsports, Inc., 1988 to present.

Joseph T. Morrow, Director; term expires July 1, 2003. Residence: Hammond, Indiana. Attorney; Chairman of the Board, Mercantile National Bank of Indiana, 1979 to present; Chairman of the Board, First National Bank of Illinois, 1979 to present; Chairman of the Board and General Counsel, Home State Bank of Crystal Lake, 1979-present

C. Kurt Zorn, Director; term expires July 1, 2003. Residence: Bloomington, Indiana. Professor of Public and Environmental Affairs, Indiana University, 1994 to Present; Chairman, State Board of Tax Commissioners, January 1991 -August 1994; Associate Professor, School of Public and Environmental Affairs, Indiana University, 1987-1994 (on leave 1989-1992); Member, American Economic Association; Member, National Tax Association; Member, Governmental Finance Officers Association.

Marni McKinney, Director; term expires July 1, 2004. Residence: Indianapolis, Indiana. Chairman, First Indiana Bank; Vice Chairman & Chief Executive Officer; First Indiana Corporation; Board of Directors; Indianapolis Public Transit Authority; Member, America's Community Bankers Association.

The Directors are authorized to appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer of the Board of Directors. J. June Midkiff was appointed Executive Director of the Indiana Bond Bank October 12, 1999. Ms. Midkiff served as Director of Economic Development in the Mayor's Office of the City of Indianapolis for seven years. In that capacity she managed various development projects throughout the City. Prior to joining the Mayor's office, she was Vice President of Merchants National Bank & Trust Company, from 1973-1991, and was responsible for the management of governmental accounts and the cash management division.

## **REVENUES, FUNDS AND ACCOUNTS**

The Indenture creates certain Funds and Accounts identified in more detail below. Pursuant to the Indenture, the Trustee will deposit the net proceeds of the Series 2001 A Bonds, together with other moneys into these Funds and Accounts as described below. Appendix D sets forth a summary of certain provisions of the Indenture.

### **Creation of Funds and Accounts**

The Indenture establishes the following Funds and Accounts to be held by the Trustee:

1. General Fund - comprised of the following:
  - (a) General Account
  - (b) Bond Issuance Expense Account

- (c) Redemption Account
- 2. Debt Service Reserve Fund
- 3. Rebate Fund

### **Deposit of Net Proceeds of the Series 2001 A Bonds, Revenues and Other Receipts**

On the date of delivery of the Series 2001 A Bonds, the Trustee will deposit the proceeds (net of underwriter's discount) from the sale of the Series 2001 A Bonds, together with other moneys made available by the Bond Bank, as follows:

(a) Into the Debt Service Reserve Fund, the amount of \$705,500.00 to partially fund the Reserve Requirement of \$846,491.26. Interest earnings on funds held within the Debt Service Reserve Fund (net of any required transfers to the Rebate Fund) will be accumulated within the Debt Service Reserve Fund until the amount on the deposit equals the Reserve Requirement of \$846,491.26;

(b) Into the Bond Issuance Expense Account of the General Fund, the amount of \$103,332.61 in order to pay the Costs of Issuance (other than the underwriter's discount retained by the Underwriter and the bond insurance premium paid by the Underwriter directly to the Series 2001 A Bond Insurer for and on behalf of the Bond Bank); and

(c) Into the General Account of the General Fund, the sum of \$6,147,011.25, which will be used to purchase the Series 2001 A Qualified Obligations, and \$21,264.86 which will be used to pay a portion of the accrued interest on the Series 2001 A Bonds on February 1, 2002.

The Trustee will deposit all Revenues and all other receipts (except the proceeds of the Series 2001 A Bonds, and moneys received by the Bond Bank from the sale or redemption prior to maturity of the Series 2001 A Qualified Obligations) into the General Account of the General Fund and will deposit any moneys received from the sale or redemption prior to maturity of the Series 2001 A Qualified Obligations into the Redemption Account of the General Fund. Thereafter, the Trustee will deposit the proceeds of any Refunding Bonds as provided under the Supplemental Indenture authorizing the issuance of such Refunding Bonds.

### **OPERATION OF FUNDS AND ACCOUNTS**

#### **General Fund**

*General Account.* The Trustee will deposit in the General Account of the General Fund all moneys required to be deposited therein pursuant to the Indenture. The Trustee will invest such funds in accordance with the Indenture and will make the following payments on the specific dates, and if there are not sufficient funds to make all the payments required, with the following order of priority:

- (a) On the date of initial delivery of the Series 2001 A Bonds and upon the submission of requisitions of the Bond Bank signed by an Authorized Officer, stating that all of the requirements with respect to such financing set forth in the Indenture have been

or will be complied with, an amount sufficient together with other money made available by the Bond Bank to purchase the Series 2001 A Qualified Obligations;

(b) On or before 10:00 A.M. in the city in which the Trustee is located, on the business day next preceding each Interest Payment Date, to the Paying Agent such amount as shall be necessary to pay the principal and interest coming due on the Bonds on such Interest Payment Date;

(c) As soon as funds become available, and only to the extent necessary, to the Debt Service Reserve Fund, sufficient amounts to assure that the Reserve Requirement is met;

(d) At such times as shall be necessary, the reasonable Program Expenses, if any, provided, that Program Expenses may not exceed the amounts set forth in the most recent Cash Flow Certificate;

(e) On or before thirty (30) days after each anniversary of the issuance of the Series 2001 A Bonds, any amount necessary to comply with any Rebate Fund requirements, to the extent such amounts are not assessed as Fees and Charges; and

(f) After making such deposits and disbursements and after the Trustee will make a determination of the amounts reasonably expected to be received in the form of Qualified Obligation Payments under the Indenture in the succeeding twelve months, to any other fund or account maintained by the Bond Bank, regardless of whether such fund or account is subject to the lien of the Indenture, all moneys in the General Fund which, together with such expected receipts for the succeeding twelve months are in excess of the amounts needed to pay principal and interest on the Bonds within the immediately succeeding twelve month period. No moneys shall be so transferred unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that after such transfer, Revenues expected to be received, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any.

*Bond Issuance Expense Account.* The Trustee will disburse the amounts held in the Bond Issuance Expense Account upon receipt of invoices or requisitions certified by the Executive Director of the Bond Bank to pay the Costs of Issuance of the Bonds or to reimburse the Bond Bank for amounts previously advanced for such costs and to transfer moneys therefrom to the General Account. On December 15, 2001, any amounts remaining in the Bond Issuance Expense Account will be transferred to the General Account, at which time the Bond Issuance Expense Account may, at the direction of the Bond Bank, be closed.

*Redemption Account.* (a) The Trustee will deposit in the Redemption Account all moneys received upon the sale or redemption prior to maturity of the Qualified Obligations and will disburse the funds in the Redemption Account as follows:

(1) On the fifteenth day of each month, to the General Account amounts of moneys equal to the amount of principal which would have been payable during the

following month if such Qualified Obligation had not been sold or redeemed prior to maturity.

(2) On the second business day next preceding each Interest Payment Date if moneys in the General Account are not sufficient to make the payments of principal and interest required to be made on such date, the Trustee shall transfer to the General Account moneys in the Redemption Account not already committed to the redemption of Bonds for which notice of redemption has been given.

(3) After making provisions for the required transfers to the General Account, (i) to redeem Bonds of such maturity or maturities as directed by an Authorized Officer of the Bond Bank, if such Bonds are then subject to redemption, (ii) to the extent there are any excess moneys in the Redemption Account, transfer to the General Account, (iii) to purchase Bonds of such maturity or maturities as directed by an Authorized Officer at the most advantageous price obtainable with reasonable diligence, whether or not such Bonds are then subject to redemption, or (iv) to make investments of such moneys until the payment of Bonds at their maturity or maturities as directed by an Authorized Officer in accordance with the Indenture. Such purchase price may not, however, exceed the Redemption Price which would be payable on the next ensuing date on which the Bonds of the Series so purchased are redeemable according to their terms unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that the purchase at a price in excess of the Redemption Price will not result in Revenues, together with moneys expected to be held in the Funds and Accounts, being less than an amount equal to debt service on all Outstanding Bonds along with Program Expenses, if any. The Trustee will pay the interest accrued on the Bonds so purchased to the date of delivery thereof to the Trustee from the General Account and the balance of the purchase price from the Redemption Account, but no such purchase shall be made by the Trustee within the period of sixty (60) days next preceding an Interest Payment Date or a date on which such Bonds are subject to redemption under the provisions of the Indenture or the Supplemental Indenture authorizing the issuance of such Bonds. The Trustee will deliver the Bonds so purchased to the Registrar within five (5) days from the date of delivery to the Trustee.

(4) In the event that the Trustee is unable to purchase Bonds in accordance with subparagraph (3), then, subject to restrictions on redemption set forth in the Indenture, the Trustee will call for redemption on the next redemption date such amount of Bonds of such maturity or maturities directed by an Authorized Officer of the Bond Bank as will exhaust the Redemption Account as nearly as possible at the applicable Redemption Price. The Trustee will pay the interest accrued on any such redeemed Bonds to the date of redemption from the General Account and will pay the Redemption Price from the Redemption Account.

(b) The Trustee may, upon written direction from the Bond Bank, transfer any moneys in the Redemption Account to the General Account if the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that after such transfer and after any transfer from the General Account to the Bond Bank, Revenues, together with moneys expected to be held in the Funds

and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any.

### **Debt Service Reserve Fund**

The Trustee will deposit in the Debt Service Reserve Fund all moneys required to be deposited therein pursuant to the Indenture, will invest such funds, and, except as provided in the Indenture, will disburse the funds held in the Debt Service Reserve Fund solely to the General Account for the payment of interest on and principal of the Bonds and only in the event that moneys in the General Account are insufficient to pay principal of and interest on the Bonds after making all of the transfers thereto required to be made under the Indenture from the Redemption Fund have been made. Amounts in the Debt Service Reserve Fund in excess of the Reserve Requirement will be transferred to the General Account of the General Fund.

### **Rebate Fund**

The Trustee will establish, designate appropriately and maintain, so long as any Bonds are outstanding and are subject to a requirement that arbitrage profits be rebated to the United States, a separate fund to be known as "Rebate Fund." The Trustee will make information regarding the Bonds and investments hereunder available to the Bond Bank and will make deposits in and disbursements from the Rebate Fund in accordance with the written instructions received from the Bond Bank and pursuant to the Indenture, will invest the Rebate Fund pursuant to written investment instructions received from the Bond Bank and will deposit income from such investments immediately upon receipt thereof in the Rebate Fund.

If a deposit to the Rebate Fund is required as a result of the computations made by the Bond Bank, the Trustee will upon receipt of written directions from the Bond Bank accept such payment for the benefit of the Bond Bank. If amounts in excess of that required to be rebated to the United States of America accumulate in the Rebate Fund, the Trustee will upon written direction from the Bond Bank transfer such amount to the General Account. Records of the determinations required by the Indenture and the investment instructions must be retained by the Trustee until six (6) years after the Bonds are no longer Outstanding.

Not later than sixty (60) days after July 1, 2006, and every five (5) years thereafter, the Bond Bank will disburse to the United States 90% of the amount required to be paid to the United States pursuant to the Code from amounts in the Rebate Fund, and not later than sixty (60) days after the final retirement of the Bonds, the Bond Bank will disburse to the United States one hundred percent (100%) of the balance required to be paid to the United States pursuant to the Code from amounts in the Rebate Fund. Each payment required to be paid to the United States pursuant to this Section will be filed with the Internal Revenue Service Center, Ogden, Utah 84201 or such other location as the Code shall require. Each payment shall be accompanied by a copy of the Form 8038-G, which the Bond Bank will prepare or cause to be prepared.

## **Amounts Remaining in Funds**

Any amounts remaining in any Fund or Account after full payment of all of the Bonds outstanding under the Indenture, all required rebates and the fees, charges and expenses of the Trustee will be distributed to the Bond Bank.

## **LITIGATION**

There is not now pending or, to the Bond Bank's knowledge, threatened any litigation restraining or enjoining the issuance, sale, execution or delivery of the Series 2001 A Bonds; seeking to prohibit any transactions contemplated by the Indenture; in any way contesting or affecting the validity of the Series 2001 A Bonds or the Series 2001 A Qualified Obligations or any proceedings of the Bond Bank taken with respect to the issuance or sale of the Series 2001 A Bonds, or the Pledges (as hereinafter defined under the caption "ENFORCEABILITY OF REMEDIES") or application of any moneys or security provided for payment of the Series 2001 A Bonds or the Series 2001 A Qualified Obligations. Neither the creation, organization or existence of the Bond Bank nor the title of any of the present directors or other officers of the Bond Bank to their respective offices is being contested.

## **TAX MATTERS**

In the opinion of Bingham Summers Welsh and Spilman, LLP, Indianapolis, Indiana, Bond Counsel, under existing law, interest on the Series 2001 A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2001 A Bonds (the "Code"). The opinion of Bingham Summers Welsh and Spilman, LLP is based on certain certifications, covenants and representations of the Bond Bank and the Qualified Entities issuing the Series 2001 A Qualified Obligations and is conditioned on continuing compliance therewith. In the opinion of Bingham Summers Welsh and Spilman, LLP, Indianapolis, Indiana, Bond Counsel, under existing law, interest on the Series 2001 A Bonds is exempt from income taxation in the State of Indiana for all purposes except the State financial institutions tax. See Appendix C for the form of Bond Counsel opinion.

The Code imposes certain requirements which must be met subsequent to the issuance of the Series 2001 A Bonds as a condition to the exclusion from gross income of interest on the Series 2001 A Bonds for federal tax purposes. Noncompliance with such requirements may cause interest on the Series 2001 A Bonds to be included in gross income for federal tax purposes retroactive to the date of issue, regardless of the date on which noncompliance occurs. Should the Series 2001 A Bonds bear interest that is not excluded from gross income for federal income tax purposes, the market value of the Series 2001 A Bonds would be materially and adversely affected. The Tax Covenants include covenants that (i) the Bond Bank and Series 2001 A Qualified Entities will not take or fail to take any action with respect to the Series 2001 A Bonds, if such action or omission would result in the loss of the exclusion from gross income for federal tax purposes of interest on the Series A Bonds under Section 103 of the Code, and the Bond Bank and Series 2001 A Qualified Entities will not act in any other manner which would adversely affect such exclusion; (ii) the Bond Bank and Series 2001 A Qualified Entities will not



make any investment or do any other act or thing during the period that the Series 2001 A Bonds are outstanding which would cause the Series A Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code; and (iii) if required by the Code, the Bond Bank will rebate any necessary amounts to the United States of America. It is not an event of default under the Indenture or the Authorizing Instruments if interest on the Series 2001 A Bonds or the Series 2001 A Qualified Obligations, respectively, is not excluded from gross income for federal tax purposes pursuant to any provision of the Code which is not in effect on the date of issuance of the Series 2001 A Bonds.

The interest on the Series 2001 A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the Series 2001 A Bonds is includable in adjusted current earnings in calculating corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in Indiana Code 6-5.5) which, in general, include all corporations which are transacting the business of a financial institution in Indiana. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code.

Although Bond Counsel will render an opinion that interest on the Series 2001 A Bonds is excluded from gross income for federal tax purposes and exempt from certain State income tax, the accrual or receipt of interest on the Series 2001 A Bonds may otherwise affect an owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the owner's particular tax status and the owner's other items of income or deduction. Except as expressly set forth above, Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the Series 2001 A Bonds should consult their own tax advisors with regard to other tax consequences of owning the Series 2001 A Bonds.

The foregoing does not purport to be a comprehensive description of all of the tax consequences of owning the Series 2001 A Bonds. Prospective purchasers of the Series 2001 A Bonds should consult their own tax advisors with respect to the foregoing and other tax consequences of owning the Series 2001 A Bonds.

## **ORIGINAL ISSUE DISCOUNT**

The initial public offering price of the Series 2001 A Bonds maturing on February 1, 2011, February 1, 2012, February 1, 2013, February 1, 2014, February 1, 2018 and February 1, 2022 (the "Discount Bonds"), is less than the principal amount payable at maturity. As a result, the Discount Bonds will be considered to be issued with original issue discount. The difference between the initial public offering price of the Discount Bonds, as set forth on the inside front cover of this Official Statement (assuming it is the first price at which a substantial amount of that maturity is sold) (the "Issue Price" for such maturity), and the amount payable at maturity of the Discount Bonds will be treated as "original issue discount." The original issue discount on each of the Discount Bonds is treated as accruing daily over the term of such Discount Bond on the basis of the yield to maturity determined on the basis of compounding at the end of each six-

month period (or shorter period from the date of the original issue) ending on February 1 and August 1 (with straight line interpolation between compounding dates). A taxpayer who purchases a Discount Bond in the initial public offering at the Issue Price for such maturity and who holds such Discount Bond to maturity will treat the full amount of original issue discount as interest which is excluded from the gross income of the owner of that Discount Bond for federal income tax purposes.

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discount Bonds, that the amount of original issue discount accruing each period will be added to the owner's tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale, redemption or payment at maturity). Owners of Discount Bonds who dispose of Discount Bonds prior to maturity should consult their tax advisors concerning the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bonds prior to maturity.

The original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. Owners of any Discount Bonds should be aware that the accrual of original issue discount in each year may result in a tax liability from these collateral tax consequences even though the owners of such Discount Bonds will not receive a corresponding cash payment until a later year.

Owners who Purchase Discount Bonds in the initial public offering but at a price different from the Issue Price for such maturity should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of bonds such as the Discount Bonds. Owners who do not purchase Discount Bonds in the initial offering should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discount Bonds. It is possible under the applicable provisions governing the determination of state or local income taxes that accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

### **AMORTIZABLE BOND PREMIUM**

The initial offering price of the Series 2001 A Bonds maturing on February 1, 2002, February 1, 2003, February 1, 2004, February 1, 2005, February 1, 2006, February 1, 2007, February 1, 2008, February 1, 2009 and February 1, 2010 (collectively, the "Premium Bonds"), is greater than the principal amount payable at maturity. As a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the "Bond Premium"). An owner who acquires a Premium Bond in the initial offering will be required to adjust the owner's basis in the Premium Bond downward as a result of the amortization of the Bond Premium, pursuant to

Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon the disposition of the Premium Bonds (including sale, redemption or payment at maturity). The amount of amortizable Bond Premium will be computed on the basis of the taxpayer's yield to maturity, with compounding at the end of each accrual period. Rules for determining (i) the amount of amortizable Bond Premium and (ii) the amount amortizable in a particular year are set forth at Section 171(b) of the Code. No income tax deduction for the amount of Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but amortization of Bond Premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning the Premium Bonds. Owners of the Series 2001 A Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of such Premium Bonds and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

Special rules governing the treatment of Bond Premium, which are applicable to dealers in tax-exempt securities, are found at Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their own tax advisors concerning the treatment of Bond Premium.

## **ENFORCEABILITY OF REMEDIES**

The remedies available to the Trustee or the holders of the Series 2001 A Bonds upon a default under the Indenture, to the Trustee or the Bond Bank under the Series 2001 A Qualified Obligations, the purchase agreements for the Series 2001 A Qualified Obligations and the Authorizing Instruments, or to any party seeking to enforce the pledges securing the Series 2001 A Bonds or the Series 2001 A Qualified Obligations described herein (collectively the "Pledges"), are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the remedies provided (or which may be provided) in the Indenture, the purchase agreements for the Series 2001 A Qualified Obligations, the Series 2001 A Qualified Obligations and the Authorizing Instruments, or to any party seeking to enforce the Pledges, may not be readily available or may be limited. Under Federal and State environmental laws certain liens may be imposed on property of the Bond Bank or the Qualified Entities from time to time, but the Bond Bank has no reason to believe, under existing law, that any such lien would have priority over the lien on the Qualified Obligation Payments pledged to owners of the Series 2001 A Bonds under the Indenture or over the liens pledged to the owners of the Series 2001 A Qualified Obligations under the Authorizing Instruments.

The various legal opinions to be delivered concurrently with the delivery of the Series 2001 A Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally, by general principles of equity (regardless of whether such enforceability is considered to be a proceeding in equity or at law) and by public policy. These exceptions would encompass any exercise of the Federal, State or local police powers in a manner consistent with the public health and welfare. Enforceability of the Indenture, the purchase agreements for the Series 2001 A Qualified Obligations, the Authorizing Instruments

and the Pledges in a situation where such enforcement may adversely affect public health and welfare may be subject to these police powers.

### **APPROVAL OF LEGAL PROCEEDINGS**

Certain legal matters incident to the authorization, issuance, sale and delivery of the Series 2001 A Bonds are subject to the approval of Bingham Summers Welsh & Spilman, LLP Indianapolis, Indiana, Bond Counsel, whose approving legal opinion will be delivered with the Series 2001 A Bonds, substantially in the form attached hereto as Appendix C. Certain legal matters will be passed on by Issuer's Counsel, Barnes & Thornburg, Indianapolis, Indiana, and McHale, Cook & Welch, p.c., Indianapolis, Indiana, counsel for the Underwriter.

### **RATING**

Standard & Poor's Ratings Group, a division of McGraw-Hill ("S&P"), has assigned a rating of "AAA" to the Series 2001 A Bonds. Such rating is conditional upon the issuance of the Municipal Bond Insurance Policy. This rating reflects only the view of S&P and an explanation thereof may be obtained from S&P at 55 Water Street, New York, New York 10041. Such rating is not a recommendation to buy, sell or hold the Series 2001 A Bonds. There is no assurance that such rating will remain in effect for any given period of time or that such rating will not be lowered or withdrawn entirely by S&P if, in its judgment, circumstances so warrant. The Underwriter has undertaken no responsibility either to bring to the attention of the owners of the Series 2001 A Bonds any proposed revision or withdrawal of the rating of the Series 2001 A Bonds or to oppose any such proposed revision or withdrawal. Any such downward revision or withdrawal of rating may have an adverse effect on the market price or marketability of the Series 2001 A Bonds.

### **UNDERWRITING**

The Series 2001 A Bonds are being purchased by the Underwriter set forth on the inside cover page of this Official Statement. The Underwriter has agreed to purchase the Series 2001 A Bonds at an aggregate purchase price of \$6,981,977.85, which represents the par amounts set forth on the inside cover hereof, plus net original issue premium of \$2,819.10, less an underwriting fee of \$75,841.25, plus accrued interest on the Series 2001 A Bonds, pursuant to a contract of purchase entered into by and between the Bond Bank and the Underwriter. Such contract of purchase provides that the Underwriter will purchase all of the Series 2001 A Bonds if they are purchased. The initial offering price may be changed from time to time by the Underwriter.

The Underwriter has agreed to make a bona fide public offering of all of the Series 2001 A Bonds at prices not in excess of the initial public offering prices set forth or reflected inside the front cover page of this Official Statement. The Underwriter may sell the Series 2001 A Bonds to certain dealers (including dealers depositing Series 2001 A Bonds into investment trusts) and others at prices lower than the offering prices set forth inside the cover page hereof.

## **VERIFICATION OF MATHEMATICAL CALCULATIONS**

The accuracy of certain mathematical computations showing that payments on the Qualified Obligations, together with other available revenues, have been structured to be sufficient to pay principal of and interest on the Series 2001 A Bonds when due will be verified by Crowe, Chizek and Company LLP, independent certified public accountants. Such verifications shall be based upon certain information and assumptions supplied by the Bond Bank and the Underwriter.

## **SERIES 2001 A BONDS AS LEGAL INVESTMENTS**

Pursuant to the Act, all Indiana financial institutions, investment companies, insurance companies, insurance associations, executors, administrators, guardians, trustees, and other fiduciaries may legally invest sinking funds, money, or other funds belonging to them or within their control in bonds or notes issued by the Bond Bank.

## **AVAILABILITY OF DOCUMENTS AND FINANCIAL INFORMATION**

Separate audited financial reports of the State and the Bond Bank, respectively, (collectively, the "Financial Reports") are prepared annually and are presently available for the year ended June 30, 2000, and prior years. No financial reports related to the foregoing entities are prepared on an interim basis and there can be no assurance that there have not been material changes in the financial position of the foregoing entities since the date of the most recent available Financial Statements. Upon request and receipt of payment for reasonable copying, mailing and handling charges, the Bond Bank will make available copies of the most recent Financial Reports, any authorizing or governing instruments defining the rights of owners of the Series 2001 A Bonds or the owners of the Qualified Obligations and available financial and statistical information regarding the Bond Bank and the Qualified Entities. Requests for documents and payments therefor should be directed and payable to the Indiana Bond Bank, 2980 Market Tower, 10 West Market Street, Indianapolis, Indiana 46204.

## **CONTINUING DISCLOSURE**

Pursuant to disclosure requirements set forth in Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), the State will agree to provide or cause to be provided through the Trustee or the Bond Bank, as dissemination agent, certain annual financial information and operating data described below.

Pursuant to the terms of the State's Continuing Disclosure Undertaking Agreement (the "Undertaking"), the State will agree to provide the following information as long as the State is an "obligated person" (within the meaning of the Rule) with respect to the Bonds (or until such time as the Bonds may be defeased or paid in full, all as more fully set forth in the Undertaking):

1. Audited Financial Statements. To each nationally recognized municipal securities information repository ("NRMSIR") then in existence and to the Indiana state information depository then in existence, if any (the "State Depository"), when and if available, the audited

financial statements of the State for each fiscal year of the State, beginning with the fiscal year ending June 30, 2001, together with the independent auditor's report and all notes thereto; if audited financial statements are not available within 210 days following the close of the fiscal year of the State, beginning with the fiscal year ending June 30, 2001, the Annual Information (as defined below) shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Information when they become available; and

2. Financial Information in this Official Statement. To each NRMSIR then in existence and to the State Depository within 210 days following the close of the fiscal year of the State, beginning with the fiscal year ending June 30, 2001, annual financial information, other than the audited or unaudited financial statements described above, including operating data of the type provided in Appendix A - "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA."

(The information described in items 1 and 2 above is referred to as the "Annual Information.")

Pursuant to the terms of the Undertaking, the Bond Bank (and the State, but only to the extent the State shall have actual knowledge of such event) will also agree to provide to each NRMSIR or to the Municipal Securities Rulemaking Board, and to the State Depository, the following event notices, if material, and in a timely manner:

- principal and interest payment delinquencies;
- non-payment related defaults;
- unscheduled draws on debt service reserves reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- modifications to the rights of Bondholders;
- Bond calls (other than scheduled mandatory sinking fund redemptions for which notice is given in accordance with the Indenture and as described in the Final Official Statement);
- defeasances;
- release, substitution or sale of property securing repayment of the Bonds; and
- rating changes.

The State and Bond Bank may from time to time choose to disseminate other information including other annual information or notice of the occurrence of certain other events, in addition to those listed above. If the State and Bond Bank choose to provide any such additional information, they will have no obligation to update such information or include it in any future Annual Information or Event Notice ("Event Notice").

Neither the State or Bond Bank have failed to comply in all material respects with any previous undertakings with respect to the Rule to provide annual information or notices of material events.

The following Series 2001 A Qualified Entities: Allen County, City of Fort Wayne and Allen County Parking Facility Building Corp., while the Bonds are outstanding, have agreed to provide the Bond Bank the preceding Event Notices with regard to their respective Series 2001 A Qualified Obligations if material, and in a timely manner, and each has agreed to provide the following information while any of their respective Qualified Obligations are outstanding:

**Audited Financial Statements.** To each NRMSIR then in existence and to the State Depository, if any, when and if available, the audited financial statements of the respective Series 2001 A Qualified Entity as prepared and examined by the State Board of Accounts for each twelve (12) month period ending December 31, together with the opinion of such accountants and all notes thereto, within sixty (60) days of receipt of such statements from the State Board of Accounts.

### **Failure to Disclose**

In a timely manner, the Trustee shall notify each NRMSIR or the Municipal Securities Rulemaking Board, and the State Depository of any failure on the part of the State to provide the Annual Information. If any information relating to the State can no longer be provided because the operations to which they related have been materially changed or discontinued, a statement to that effect, provided by the State to each NRMSIR then in existence and to the State Depository along with the Annual Information required as specified above and containing such information as is still available, will satisfy such party's undertaking to provide the Annual Information. To the extent available, such party will cause to be filed along with the Annual Information operating data similar to that which can no longer be provided.

### **Accounting Principles**

The accounting principles pursuant to which the financial statements of the State will be prepared will be generally accepted accounting principles, as in effect from time to time or those mandated by State law from time to time.

The Undertaking is solely for the benefit of the holders and Beneficial Owners of the Bonds and creates no new contractual or other rights of the SEC, any underwriter (other than the Underwriter), brokers, dealers, municipal securities dealers, potential customers, other obligated persons or any other third party. The sole remedy against the State for any failure to carry out any provision of the Undertaking shall be for specific performance of the State's disclosure obligations under the Undertaking. Failure on the part of the State to honor its covenants thereunder shall not constitute a breach or default of the Bonds, the Indenture or any other agreement to which the State or the Bond Bank, or any instrumentality or officer thereof, is a party.

The remedy set forth in the preceding paragraph may be exercised by the Trustee or any holder or Beneficial Owner of the Bonds who may seek specific performance by court order to cause the State or the Bond Bank to comply with its obligations under the Undertaking.

## **Modification of Undertaking**

The Bond Bank, State and the Trustee may, from time to time, amend or modify any provision of the Undertaking without the consent of the holders or the Beneficial Owners of the Bonds if: (i) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Bond Bank or the State, or type of business conducted, (ii) the Undertaking, as so amended or modified, would have complied with the requirements of the Rule on the date of the Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment or modification does not materially impair the interest of the holders or Beneficial Owners of the Bonds as determined either by (a) any person selected by the State that is unaffiliated with the State (including the Counterparty as Trustee under the Indenture) or (b) is approved by the holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the holders; or (c) such amendment or waiver (including an amendment which rescinds the Undertaking) is permitted by the Rule.

The Annual Information for the fiscal year during which any such amendment or waiver occurs that contains the amended or waived Annual Information will explain, in narrative form, the reasons for such amendment or waiver and the impact of the change in the type of information being provided in the Annual Information.

Copies of the Undertaking are available from the Bond Bank upon request.

## **MISCELLANEOUS**

The references, excerpts, and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents, and reference is made to all such documents for full and complete statements of all matters of fact relating to the Series 2001 A Bonds, the security for the payment of the Series 2001 A Bonds and the rights of the owners thereof. During the period of the offering, copies of drafts of such documents may be examined at the Offices of the Underwriter; following delivery of the Series 2001 A Bonds, copies of such documents may be examined at the offices of the Bond Bank.

The information contained in this Official Statement has been compiled from official and other sources deemed to be reliable, and while not guaranteed as to completeness or accuracy, is believed to be correct as of this date.

Any statements made in this Official Statement involving matters of opinions or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information presented herein since the date hereof. This Official Statement is submitted in connection with the issuance and sale of the Series 2001 A Bonds and may not be reproduced or used, in whole or in part, for any other



purpose. This Official Statement is not to be construed as a contract or agreement between the Bond Bank, the Qualified Entities, the Trustee, the Registrar and Paying Agent or the Underwriter and the purchasers or owners of any Series 2001 A Bonds. The delivery of this Official Statement has been duly authorized by the Board of Directors of the Bond Bank.

INDIANA BOND BANK

By: /s/ Tim Berry  
Tim Berry, Chairman, Ex Officio

Dated: July 12, 2001

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## **Appendix A**

### **Financial and Economic Statement for the State of Indiana**

**APPENDIX A**

**FINANCIAL AND ECONOMIC  
STATEMENT FOR THE STATE OF INDIANA**

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## **INTRODUCTION**

This Financial and Economic Statement (the "Statement") for the State of Indiana (the "State") includes a discussion of the State's condition for the current Fiscal Year 2001, the results of operations for the past five years and revenue projections through the end of the biennium ending June 30, 2003. The information has been compiled on behalf of the State by the Indiana State Budget Agency and includes information and data taken from the Agency's unaudited year-end budget reports. It also includes information obtained from other sources the State believes to be reliable. Information included in the section titled "Litigation" has been furnished by the office of the State Attorney General.

The State expects to update the entire Statement at least annually after the close of each Fiscal Year (as defined herein). The status of this Statement or any updates or supplements may be obtained by contacting the Indiana State Budget Agency, Room 212, State House, Indianapolis, IN 46204, Tel: (317) 232-5610. This Statement should be read in its entirety together with any updates or supplements.

The General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 2000 are Exhibit A-1 to this Appendix A.

## **STRUCTURE OF STATE GOVERNMENT**

### **Division of Powers**

The State constitution divides the powers of the State's government into three separate departments: the executive (including the administrative), the legislative and the judicial. Under the State constitution, no person in any one department may exercise any function of another department unless expressly authorized to do so by the constitution.

### **Executive Department**

The executive department of the State is comprised of the Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, Attorney General, Superintendent of Public Instruction and Clerk of the Supreme Court and Court of Appeals. All are elected for four-year terms, with the terms of the Lieutenant Governor, Attorney General and Superintendent of Public Instruction coinciding with that of the Governor.

The State constitution requires the Governor to "take care that the laws are faithfully executed." The Governor may recommend legislation to the General Assembly of the State (the "General Assembly") may call special sessions of the General Assembly and may veto any bill passed by the General Assembly (although such veto may be overridden if the bill is re-passed by a majority of *all* the members elected to each house of the General Assembly). There are approximately 400 boards and agencies which are responsible to the Governor. If the Governor vacates the office or is unable to discharge the Governor's duties, the Lieutenant Governor discharges the powers and duties as Acting Governor until the next general election.

The Lieutenant Governor serves as the President of the State Senate and casts the deciding vote whenever the Senate is equally divided. The Lieutenant Governor also serves as director of the State Department of Commerce, the Commissioner of Agriculture, the chairman of the Indiana Housing Finance Authority, the secretary manager of the Indiana Development Finance Authority and a member of the Indiana State Office Building Commission.

The Secretary of State attests official State documents issued by the Governor, maintains records of elections and administers State laws regulating the sale and trading of securities and corporate and Uniform Commercial Code filings.

The State Treasurer is responsible for holding and investing all State revenues and disburses money upon warrants issued by the State Auditor. The State Treasurer is a member of the State Board of Finance, Indiana Transportation Finance Authority, Indiana Housing Finance Authority, Indiana Development Finance Authority and State Office Building Commission. The State Treasurer is Secretary-Investment Manager of the State Board for Depositories and chairs the Indiana Bond Bank and Indiana Education Savings Authority.

The State Auditor maintains the State's centralized financial accounting system for all State agencies. Responsibilities include accounting for receipts and disbursements of the State, as well as issuing payroll for most State employees. The State Auditor is required by statute to prepare and publish annual statements of State funds, outlining receipts and disbursements of each State department and agency. The State Auditor is a member of the State Board of Finance, State Office Building Commission, State Board for Depositories and Data Process Oversight Commission.

The Attorney General is the chief legal officer of the State and is required to represent the State in every lawsuit in which the State is a party. The Attorney General, upon request, gives legal opinions regarding particular statutes to the Governor, members of the General Assembly and officers of the State.

The Superintendent of Public Instruction chairs the State Board of Education, which establishes policies and directives for implementation by the Indiana Department of Education. The Superintendent of Public Instruction oversees the Department of Education.

The Clerk of the Supreme Court and Court of Appeals performs the clerical and administrative duties required by the two highest courts of the State.

### **Legislative Department**

The legislative authority of the State is vested in the General Assembly, which is comprised of the House of Representatives and the Senate. The House of Representatives consists of 100 members who are elected for two-year terms beginning in odd-numbered years. The Senate consists of 50 members who are elected for four-year terms, with one-half of the Senate elected biennially. The Speaker presides over the House of Representatives. The Speaker is selected by the members of the House of Representatives from among their ranks. The Lieutenant Governor is President of the Senate.

By law, the term of each General Assembly extends for two years, beginning in November of each even-numbered calendar year. The first regular session of every General Assembly occurs in the following odd-numbered year, convening not later than the second Monday in January and adjourning not later than April 29. The second regular session occurs in the following year, convening not later than the second Monday in January and adjourning not later than March 14.

Pursuant to the State constitution, special sessions of the General Assembly may be convened by the Governor at any time if, in the Governor's opinion, "the public welfare shall require." By statute, a special session of the General Assembly may not exceed 30 session days during a 40-calendar-day period. The Governor cannot limit the subject of any special session or its scope.

### **Judicial Department**

The State constitution provides that the "judicial power of the State shall be vested in one Supreme Court, one Court of Appeals, Circuit Courts, and such other courts as the General Assembly may establish."

The Judicial Nominating Commission (comprised of the Chief Justice or his appointee, three attorneys elected by the attorneys of Indiana and three non-attorney citizens appointed by the Governor) evaluates the qualifications of potential candidates for vacant seats on the Supreme Court and Court of Appeals. When a vacancy occurs in either court, the Judicial Nominating Commission submits the names of three nominees and the Governor selects one of the three. If the Governor fails to choose among the nominees within 60 days, the Chief Justice is required to make the appointment.

The initial term of each newly appointed justice and judge is two years, after which the justice or judge is subject to a "yes" or "no" referendum at the time of the next general election. For justices of the Supreme Court, the entire State electorate votes on the question of approval or rejection. For Court of Appeals judges, the referendum is by district. Those justices and judges receiving an affirmative vote from the voting public serve a ten-year term, after which they are again subject to referendum. Justices and judges are prohibited from taking part in political campaigns and must retire by age 75.

## **FISCAL POLICIES**

### **Fiscal Years**

The State's Fiscal Year is the 12-month period beginning on July 1 of each calendar year and ending on June 30 of the succeeding calendar year (a "Fiscal Year").

### **Accounting System**

The State maintains a central accounting system which processes all payments for State agencies and institutions with the exception of State colleges and universities. The State Auditor is responsible for the pre-audit of all payments, the issuance of all State warrants and the maintenance of the State-wide accounting system.

Budgetary control is fully integrated into the accounting system. Legislative appropriations are entered into the system as an overall spending limit by account for each agency within each fund, but appropriations are not available for expenditure until allotted by the Budget Agency. Allotments authorize an agency to spend a portion of its appropriation. The Budget Agency makes quarterly allotments.

The accounting system is maintained using the cash basis of accounting. At year-end, accruals are recognized as necessary to convert from the cash basis to the modified accrual basis of accounting in accordance with generally accepted accounting principles for financial reporting purposes. The general purpose financial statements of the State for the Fiscal Year ended June 30, 2000, together with the independent auditors' report thereon, are included in the General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 2000, attached hereto as Exhibit A-1. See "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund."

### **Fund Structure**

Funds are used to record the activities of State government. There are three major fund types: Governmental, Proprietary and Fiduciary.

#### ***Governmental Funds***

Governmental Funds are used to account for the State's general governmental activities and use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is, when they are "measurable and available"). Expenditures are recorded when the related fund liability is incurred, except that (i) unmatured interest on general long-term debt is recognized when due and (ii) certain compensated absences and related liabilities and claims and judgments are recognized when the obligations are expected to be liquidated. Governmental Funds include the following fund types:

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government which are not required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. There are several Special Revenue Funds including, for instance, the Motor Vehicle Highway Fund, which receives revenues from gasoline taxes and motor vehicle registrations and operator licensing fees and distributes those revenues among the State and its counties, cities and towns to be used for the construction, reconstruction, improvement, maintenance and policing of highways and secondary roads.

The Property Tax Replacement Fund ("PTRF" or "PTR Fund") is also reported by the State Auditor as a Special Revenue Fund. The PTRF is funded from 40% of State sales and use tax revenues and a portion of corporate adjusted gross income tax receipts. The Property Tax Replacement Fund is used to provide (i) property tax relief and (ii) local school aid. Although reported as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTRF with those of the General Fund, so as to provide the most complete and accurate description possible of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For that reason, the General Fund and PTRF are sometimes discussed in this Appendix A as a single,

combined fund. See "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund."

Debt Service Funds are used to account for the accumulation of resources and payment of bond principal and interest from special revenue component units which are both corporate and politic and have the legal authority to issue bonds to finance certain improvements within the State.

Capital Projects Funds are used to account for financial resources to be used by the State for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Capital Projects Funds include the Post War Construction Fund, Build Indiana Fund, Soldiers and Sailors Children's Home Fund, Veterans Home Fund, State Police Building Commission Fund, Law Enforcement Academy Building Fund, Interstate Bridge Fund and Major Construction-Indiana Army National Guard Fund.

### ***Proprietary Funds***

Proprietary Funds use the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred. Proprietary Funds include the following fund types:

Enterprise Funds are used to account for operations established to provide services to the general public in a manner similar to private business enterprises. Cost of providing the goods or services are financed or recovered primarily through user charges. Enterprise Funds include the Inns and Concessions Fund, Toll Bridges Fund, Toll Roads Fund, State Lottery Commission Fund, Malpractice Insurance Authority Fund and Political Subdivision Insurance Fund.

Internal Service Funds are used to account for the operations of State agencies which render goods or services to other agencies or governmental units on a cost-reimbursement basis. Internal Service Funds include the Institutional Industries Fund, Administration Services Rotary Fund, State Office Building Commission Fund, Recreational Development Commission Fund and Self-Insurance Funds.

### ***Fiduciary Funds***

Fiduciary Funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds, and they are broken down into four broad categories:

Expendable Trust Funds. The State maintains various Expendable Trust Funds to account for resources the State holds as a trustee. The principal and earnings on this fund type may be used for purposes designated by trust agreement. Expendable Trust Funds include the Unemployment Funds and Health Insuring Organization Funds.

Non-Expendable Trust Funds. The State maintains a limited number of Non-Expendable Trust Funds to account for resources the State holds as a trustee. The principal must be preserved and only the earnings may be used for purposes designated by trust agreement. The most significant Non-Expendable Trust Fund is the Common School Fund. The Common School Fund was established by the State constitution and is comprised of fines, forfeitures and escheated estates. Interest on the Common School Fund may only be used to aid local schools.

Pension Trust Funds. The State maintains pension funds for State and local officers and employees and accounts for each type of pension in a separate fund. Such funds are accounted for in the same way as Proprietary Funds. See "STATE RETIREMENT SYSTEMS."

Agency Funds account for resources which are custodial in nature. Agency Funds generally include amounts held by the State on behalf of third parties. Agency Funds include the Deferred Compensation Fund, Institutional Funds, Department of Insurance Fund and State Police Employee Insurance Fund.



### ***Account Groups***

In addition to the fund types described above, the General Fixed Assets Account Group is maintained to account for fixed assets acquired or constructed for use by the State for general governmental purposes, including all fixed assets except those accounted for in Proprietary and Pension Trust Funds. Public domain fixed assets, including highways, curbs, lighting systems, highway land and rights-of-way, are not included.

The General Long-Term Debt Account Group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

### **Budget Process**

The State Budget Agency is responsible for preparing the State budget. After the State budget is enacted, the Budget Agency has extensive statutory authority to administer it. The chief executive officer of the Budget Agency is the State Budget Director, who is appointed by the Governor. The Governor also appoints two Deputy Budget Directors; by law, the deputies must be of different political parties.

***Budget Committee.*** The State Budget Committee consists of the State Budget Director and four senior State legislators. The Committee oversees the preparation of the budget and its administration after enactment. The legislative members of the Committee consist of two members of the Senate, appointed by the President *pro tempore*, and two members of the House of Representatives, appointed by the Speaker. One of the two appointees from each house must be nominated by the minority floor leader. Four alternate members of the Budget Committee must be legislators selected in the same manner as regular members. An alternate member participates and has the same privileges as a regular member, except that an alternate member votes only if the regular member from the alternate member's respective house and political party is not present. The legislators serve as liaisons between the executive and legislative departments and provide fiscal information to their respective caucuses.

***Budget Development.*** The State's budget process is set out in statute. The State operates under a biennial budget. On or before the first day of September in each even-numbered year, all State agencies, including State-supported higher education institutions and public employee and teacher pension fund trustees, submit budget requests to the Budget Agency. The Budget Agency then conducts an internal review of each request.

In September of each even-numbered year, the Budget Committee begins hearings on each budget request. After presentations by the agencies and the Budget Agency, the Budget Committee makes budget recommendations to the Governor. The Budget Committee's recommendations are tentative, pending review of revenue projections for the next biennium, which typically are available late in the second quarter of the Fiscal Year.

***Revenue Projections.*** Revenue projections are prepared by the Indiana Economic Forecast Committee and the Technical Forecast Committee. The Economic Forecast Committee is responsible for forecasting independent variables which may be employed by the Technical Forecast Committee to derive the State's revenue projections. The Economic Forecast Committee is currently comprised of seven economists within the State and a special adviser associated with the Federal Reserve Bank of Chicago, all of whom serve at the request of the Governor and without pay. Members of the Economic Forecast Committee have detailed knowledge of the State and national economies, the banking community and the Federal Reserve System and have access to a national econometric model.

The Technical Forecast Committee is responsible for developing econometric models used to derive the State's revenue projections and for monitoring changes in State and federal laws that may have an impact on State revenues. Each regular member of the Budget Committee appoints a member of the Technical Forecast Committee. Members of the Technical Forecast Committee are individuals with expertise in public finance from within State and local government, business interest groups and State-supported higher education institutions.

No formal contact occurs between the Economic Forecast Committee and the Technical Forecast Committee until the chair of each group reports to the Budget Committee. However, the Economic Forecast Committee does provide the economic assumptions used by the Technical Forecast Committee in preparing the State's revenue projections. The report presented by the Technical Forecast Committee is a consensus forecast in which Democratic and Republican legislators and the executive and legislative departments are involved.

***Budget Report.*** The budget report and budget bill are prepared by the Budget Committee with the Budget Agency's assistance. The budget report and bills are based upon the recommendations and estimates prepared by the Budget Agency and the information obtained through the hearings and other inquiries. In the event the Budget Agency and a majority of the members of the Budget Committee differ upon any item, matter or amount to be included in the budget report and bills, the recommendation of the Budget Agency is included in the budget bills. The particular item, matter or amount, and the extent of and reasons for the differences between the Budget Agency and the Budget Committee, must be stated fully in the budget report.

Before the second Monday of January in the year immediately after their preparation, the Budget Committee submits the budget report and bill to the Governor. The Governor then delivers such budget bills to the Budget Committee members appointed by the Speaker of the House of Representatives for introduction in the House. Although there is no law that requires a budget bill to originate in the House, by tradition, the House passes budget bills first and sends them to the Senate for consideration.

The budget report includes at least these five parts: (a) a statement of policy, (b) a general summary, (c) detailed data on actual receipts and expenditures for the previous budget period, (d) a description of the capital improvement program for the State and (e) the budget bill.

### **Appropriations**

By statute, the Budget Committee is required to meet at least once during the two-month period after the adjournment of each regular session of the General Assembly and, beginning in July, at least once each month and upon call of the chair.

***Appropriations.*** Within 45 days following the adjournment of each regular session of the General Assembly or within 60 days following a special session of the General Assembly, the Budget Agency is required to prepare a list of all appropriations made for the budget period beginning on July 1 following such session, or for such other period as may be provided in the appropriation. The State Budget Director is required to prepare a written review and analysis of the fiscal status and affairs of the State as affected by the appropriations. The report is forwarded to the Governor, the State Auditor and each member of the General Assembly.

On or before the first day of June of each calendar year, the Budget Agency is required to prepare a list of all appropriations made for expenditure or encumbrance during the next Fiscal Year. The State Auditor then establishes the necessary accounts based upon the list.

***Transfers.*** The Budget Agency is responsible for administering the State budget after it is enacted. The Budget Agency may transfer, assign or reassign all or any part of any appropriation made to any agency for one specific use or purpose to another use or purpose, except any appropriation made to the Indiana State Teachers' Retirement Fund. The Budget Agency may take such action only if the transfer, assignment or reassignment is to meet a use or purpose which an agency is required or authorized by law to perform. The agency whose appropriation is involved must approve the transfer, assignment or reassignment.

***Contingency Appropriations.*** The General Assembly may also make "contingency appropriations" to the Budget Agency. Contingency appropriations are general and unrelated to any specific State agency. In the absence of other directions imposed by the General Assembly, contingency appropriations must be for the general use of any agency of the State and must be for its contingency purposes or needs, as the Budget Agency in each situation determines. The Budget Agency fixes the amount of each transfer and orders the transfer from such appropriations to the agency. By law, the Budget Agency may make and order allocations and transfers to, and authorize expenditures by, the various State agencies to achieve the purposes of such agencies or to meet the following:

1. necessary expenditures for the preservation of public health and for the protection of persons and property that were not foreseen when appropriations were last made;
2. repair of damage to, or replacement of, any building or equipment owned by the State which has been so damaged so as to materially affect the public safety or utility thereof, or which has so deteriorated as to become unusable if such deterioration was not foreseen when appropriations were last made;

3. emergencies resulting from an increase in costs or any other factor or event that was not foreseen when appropriations were last made, or

4. without limiting the foregoing, supplementation of an exhausted fund or account of any State agency, whatsoever the cause of such exhaustion, if such is found necessary to accomplish the orderly administration of the agency, or the accomplishment of an existing specific State project. (No such funds may authorize a purpose which was included in the budget bills to the previous General Assembly but was wholly omitted by the General Assembly.)

These provisions may not change, impair or destroy any fund previously created nor affect the administration of any contingency appropriations previously or subsequently made for specific purposes.

### **State Board of Finance**

The State Board of Finance (the "Board") consists of the Governor, the State Treasurer and the State Auditor. The Board elects from its membership a president, who by tradition is the Governor. By law, the State Auditor is the secretary of the Board. The Board is responsible for supervising the fiscal affairs of the State and has advisory supervision of the safekeeping of all funds coming into the State treasury and all other funds belonging to the State coming into the possession of any State agency or officer. The Board may transfer money between State funds, except trust funds, and the Board may transfer money between appropriations for any State board, department, commission, office or benevolent or penal institution.

The Board has statutory authority to negotiate loans on behalf of the State for the purpose of meeting "casual deficits" in State revenues. A loan may not be for a period longer than four years after the end of the Fiscal Year in which it is made. If sufficient revenues are not being received by the General Fund to repay the loan when due, the Board may levy a tax on all taxable property in the State sufficient to pay the amount of the indebtedness. The Board has never exercised its authority to levy a tax.

### **Rainy Day Fund**

In 1982, the General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund, which is commonly called the "Rainy Day Fund." The Rainy Day Fund was established to permit the State to collect and maintain substantial general purpose tax revenues during periods of economic expansion for use during periods of economic recession. In effect, the Rainy Day Fund is a statutorily required State savings account.

Each year the State Budget Director determines calendar year Adjusted Personal Income ("API") for the State and its growth rate over the previous year. API is determined by dividing the calendar year State personal income (excluding transfer payments made in the State) by the implicit price deflator for the Fiscal Year ending in the aforementioned calendar year; the result is multiplied by 100. The annual growth rate in API for a particular calendar year is calculated by dividing the difference between API for such year and API for the immediately preceding calendar year by the amount of API for the immediately preceding calendar year. This change in API is the sole factor in determining whether General Fund revenues are transferred to the Rainy Day Fund or whether moneys in the Rainy Day Fund revert to the General Fund. In general, moneys are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2.0%; moneys are removed automatically from the Rainy Day Fund if API declines by more than 2.0%.

By law, "automatic" appropriations to and from the General Fund are determined as follows:

1. If the growth rate of API for the calendar year immediately preceding the current calendar year is greater than 2.0%, an amount is appropriated from the General Fund for the Fiscal Year beginning in the current calendar year which equals the total General Fund revenues for the Fiscal Year ending in the current calendar year, multiplied by the growth rate in API less two percentage points.

2. If API declines by more than 2.0% for the calendar year immediately preceding the current calendar year, the amount appropriated to the General Fund for the Fiscal Year beginning in the current

calendar year equals total General Fund revenues for the Fiscal Year ending in the current calendar year, multiplied by the decline in API less two percentage points.

During a Fiscal Year when a transfer is made to the Rainy Day Fund, if General Fund revenues are less than estimated (and the shortfall cannot be attributed to a statutory change in the tax rate, tax base, fee schedules or revenue sources from which the revenue estimates were made), an amount reverts to the General Fund from the Rainy Day Fund equal to the lesser of (a) the amount initially transferred to the Rainy Day Fund during the Fiscal Year and (b) the amount necessary to balance the General Fund budget for the Fiscal Year.

All earnings from the investment of the Rainy Day Fund balance remain in the Rainy Day Fund. Moneys in the Rainy Day Fund at the end of the Fiscal Year do not revert to the General Fund. If the balance in the Rainy Day Fund at the end of the Fiscal Year exceeds 7.0% of total General Fund revenues for the Fiscal Year, the excess is transferred from the Rainy Day Fund into the PTRF.

The 2001 General Assembly enacted a number of special provisions designed to help balance the budget for the 2002-2003 biennium. Two such provisions involve possible transfers from the Rainy Day Fund to the General Fund. For a detailed explanation of these transfers and their impact on the 2002-2003 biennial budget, see "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Rainy Day Fund" and Table 3 for further discussion of Rainy Day Fund balances and transfers.

### **Cash Management and Investments**

The State Treasurer is responsible for the receipt, custody and deposit of all moneys paid into the State Treasury and keeps daily accounts of all funds received into the Treasury and all moneys paid out of it. The State Treasurer is responsible for investing the General Fund, PTRF, Rainy Day Fund and more than 60 other funds.

Interest bearing demand accounts are maintained in three Indianapolis banks to clear State warrants and to compensate for banking services rendered. Deposits are made directly by the State Treasurer or by State departments and agencies for credit to the State Treasury. Except for such demand accounts, all State funds are invested. Repurchase agreements are used for short-term cash management purposes and must be fully collateralized by certain obligations of the United States government or its agencies (determined on the basis of current market value). The majority of investments are obligations backed by the full faith and credit of the United States and certificates of deposit in Indiana financial institutions; however, the State Treasurer is also authorized to invest in obligations issued by agencies and instrumentalities of the United States. Rates on certificates of deposit are established by prevailing market conditions. Deposits are subject to coverage by the Indiana Public Deposit Insurance Fund in the event of depository closure; provided that the deposits were invested according to the investment requirements of Indiana Code 5-13.

Pursuant to State statute, the Treasurer may invest no more than 25% of the State's portfolio in securities with a final maturity exceeding five years. The remainder of the portfolio may not have final maturities exceeding two years.

### **Audits**

The State Board of Accounts was created by the General Assembly in 1909 as a separate State agency, with the responsibility and authority to (a) audit all State and local units of government and (b) approve uniform systems of accounting for such governments.

The State Board of Accounts performs its financial and compliance audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. The State Board of Accounts issues its opinion on the fairness of financial statements and their conformity to generally accepted accounting principles for the State agencies and local units of governments it audits, including the State general purpose financial statements prepared by the State Auditor. See Exhibit A-1, including the Independent Auditor's Report therein.

## STATE BUDGET PROFILE

### Major General Fund and PTR Revenue Sources

***Individual Adjusted Gross Income Tax.*** Adjusted gross income (federal adjusted gross income modified by adding back certain federal adjustments and subtracting certain federal exemptions and deductions) of residents and non-residents derived from Indiana sources is taxed at 3.4%.

All revenues derived from the collection of the adjusted gross income tax imposed on persons are credited to the General Fund. For Fiscal Year ended June 30, 2000, the \$3,753.3 million in receipts from the adjusted gross income tax on individuals constituted approximately 40.8% of total State Operating Revenues (as hereinafter defined). State individual income tax rates were last increased effective for Calendar Year 1988.

***Sales and Use Taxes.*** A 5.0% sales tax is imposed on sales and rentals of tangible personal property and the sale of certain services, including the furnishing of public utility services and the rental or furnishing of public accommodations such as hotel and motel room rentals. In general, the complementary 5.0% use tax is imposed upon the storage, use or consumption of tangible personal property in the State. Some of the major exemptions from the sales and use taxes are sales of certain property to be used in manufacturing, agricultural production, public transportation or governmental functions, sales for resale, food sold in grocery stores and prescription drugs.

Of the receipts collected, 59.2% of the sales and use taxes are credited to the General Fund, 40.0% to the PTRF, 0.8% to the Public Mass Transportation Fund and 0.04% to the Industrial Rail Service Fund.

For Fiscal Year ended June 30, 2000, the \$3,651.4 million in receipts from the sales and use taxes deposited in the General Fund and PTRF constituted approximately 39.7% of State Operating Revenues. The State sales and use tax rate was last increased in Fiscal Year 1983.

***Corporate Income Taxes.*** There are three major corporate income taxes: the gross income tax, the adjusted gross income tax and the supplemental net income tax. Corporations are generally subject to both the gross income tax and the adjusted gross income taxes; however, as a result of a statutory credit provision, corporations annually pay an amount equal to the greater of the liabilities computed under the gross income tax and the adjusted gross income tax, plus the supplemental net income tax. There is also a financial institutions tax.

Subject to certain exemptions, the gross income tax is generally imposed on the gross receipts of corporations (and certain other taxpayers) which derive income from business within the State. While there are generally no deductions allowed for costs, losses or expenses, some taxpayers (including certain insurance companies, credit companies, wholesale grain and soybean dealers, wholesale grocers, livestock dealers and livestock slaughterers) are taxed on a gross "earnings" basis. In general, receipts from sales made in interstate commerce are exempt.

Gross receipts subject to the gross income tax are taxed at one of two rates, depending upon the transaction being taxed. The lower rate (0.3%) is imposed on receipts from retail sales, wholesale sales, display advertising, dry cleaning and other activities. The higher rate (1.2%) is imposed on all receipts which are not specifically defined to be taxed at the lower rate, including receipts from certain rentals, service income, utility services, earnings on intangibles and sales of realty. All gross income tax receipts are credited to the General Fund.

The adjusted gross income tax is generally applicable to corporations doing business in the State. The tax rate is 3.4% of adjusted gross income derived from sources within the State. Adjusted gross income is federal taxable income with certain additions and subtractions. Certain international banking facilities and insurance companies, S corporations and tax-exempt organizations (to the extent their income is exempt for federal tax purposes) are not subject to the adjusted gross income tax.

Part of the adjusted gross income tax collections is allocated to the General Fund on the basis of a statutory formula and the balance is credited to the PTRF. See "FISCAL POLICIES—Fund Structure—Governmental Funds."

The supplemental net income tax is imposed on all corporations subject to the adjusted gross income tax and on certain domestic insurance companies. The 4.5% tax rate is applied to the supplemental net tax base of the taxpayer. The supplemental net tax base is Indiana adjusted gross income less the greater of (a) the amounts paid under the adjusted gross income tax and (b) the amount paid under the gross income tax. There are no deductions or exemptions under the supplemental net income tax; however, the corporate gross income tax credits apply. All receipts from the supplemental net income tax are credited to the General Fund.

The financial institutions tax is imposed on each corporation that is transacting the "business of a financial institution" in Indiana. The financial institutions tax is a franchise tax on financial institutions, at a rate of 8.5% of adjusted or apportioned income, for the privilege of exercising their franchise or transacting business within the State. Certain exemptions from and credits against the financial institutions tax are available. A taxpayer subject to the financial institutions tax is exempt from the corporate gross income, adjusted gross income and supplemental net income taxes and State banking taxes. All receipts from the financial institutions tax are credited to the Financial Institutions Tax Fund. By statutory formula, a substantial amount of the moneys in such fund must be transferred to counties for distribution to the taxing units within the counties. The remainder is transferred to the General Fund.

For Fiscal Year ended June 30, 2000, corporate income and financial institutions tax receipts totaled \$985.3 million and constituted approximately 10.7% of State Operating Revenues. State corporate income tax rates were last increased effective for Calendar Year 1987.

***Other Operating Revenues.*** Other Operating Revenues are derived from Cigarette Taxes, Alcoholic Beverage Taxes, Inheritance Taxes, Insurance Taxes, Interest Earnings and miscellaneous revenue. Revenue from these sources together totaled about \$809.9 million or about 9% of total Operating Revenues in Fiscal Year 2000.

## **Operating Revenues**

While certain revenues of the State are required by law to be credited to particular funds other than the General Fund, the requirement is primarily for accounting purposes and may be changed. Substantially all State revenues are general revenues until applied. No lien or priority is created to secure the application of such revenues to any particular purpose or to any claim against the State. All revenues not allocated to a particular fund are credited to the General Fund. The general policy of the State is to close each Fiscal Year with a surplus in the General Fund and a zero balance in all other accounts, except for certain dedicated and trust funds and General Fund accounts reimbursed in arrears.

Although established by law as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTRF with those of the General Fund to provide a complete and accurate description of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For this purpose, the combined receipts are referred to as State Operating Revenues ("Operating Revenues"). Operating Revenues are defined as the total of General Fund and PTRF revenues including certain revenues transferred from lottery and gaming accounts together with DSH revenues transferred to the General Fund. "DSH" revenues are extra Medicaid reimbursements provided to the State for hospitals which serve disproportionately large numbers of poor people. Total Operating Revenues are used in the determination of the State's unappropriated balance reflected on the Combined General and PTR Fund Unappropriated Reserve Statement. See "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund."

## **Revenue Forecast**

On December 19, 2000, the Economic Forecast Committee presented to the State Budget Committee projections of Gross Domestic Product (GDP) and income for the third quarter of 2000 through the second quarter of 2003. The Forecast Committee noted that demand in the United States economy slowed from the torrid pace of the last three years, to a growth rate of about 3.3%. The Forecast Committee believed Indiana Non-farm Personal Income (IPI) had slowed from a high of 7.4% for the second quarter of Calendar Year 2000 to a level of about 5.2% for the third and fourth quarters of Calendar Year 2000. The Forecast Committee expected real GDP growth to slip to about 1.8% by the second quarter of Calendar Year 2001. It is also projected that IPI would slow to about 3.5% during the first half of Calendar Year 2001. In December, the Forecast Committee did not expect the slowdown to lead to a recession. The Forecast Committee projected that by the Summer of 2001 rising natural gas prices would moderate, oil prices would remain below \$30 per barrel, inflation would be stable and the Federal Reserve would

have lowered interest rates. The Forecast Committee expected this would contribute to a rebound in the economy and real GDP growth would approach 4% early in 2002 before leveling off at about 3.6% which the Forecast Committee believes is the long term potential growth rate for the United States economy. IPI was also expected to rebound from an average of about 4.5% for Fiscal Year 2001 to about 5.5% for Fiscal Years 2002 and 2003.

Based on the December projections of the Economic Forecast Committee, the Technical Forecast Committee presented revised General-PTR Fund revenue projections for Fiscal Year 2001 and new General-PTR Fund revenue projections for Fiscal Years 2002 and 2003. The projected slowdown in growth of the economy caused the Technical Committee to lower revenue projections for Fiscal Year 2001 by about \$251.5 million. Because the Forecast Committee believed the economy would rebound for Fiscal years 2002 and 2003, the Technical Committee projected revenue growth for those years at 4.9% and 5.4% respectively. However, because of the \$251.5 million decrease to the Fiscal Year 2001 base, the Budget Agency estimated total General Fund revenues for Fiscal Years 2001 – 2003 would be about \$856.1 million less than total revenues would have been expected to be for the same period without the current economic slowdown.

On April 11, 2001 the Economic Forecast Committee and the Technical Forecast Committee updated the December, 2000 forecasts. The Economic Forecast Committee presented a GDP growth pattern that was similar to the one presented in December – a real GDP slowdown in the first half of 2001 followed by a recovery beginning in the second half of the year. However, the Committee reduced the December real GDP forecast by 1.1% for fiscal year 2001, by .5% for fiscal Year 2002 and by .2% for Fiscal Year 2003. This resulted in a real GDP forecast that projects 1<sup>st</sup> quarter 2001 GDP at about .5% with a modest recovery beginning in the second half of 2001 and reaching real GDP growth of 3.5% by the middle of 2003. The Economic Forecast Committee also lowered projections for Indiana non-farm personal income by .4%, .4% and .1% for Fiscal Years 2001, 2002 and 2003 respectively.

In presenting this forecast, the Economic Forecast Committee expressed its belief that the worst of the current economic slowdown has already, or will soon, be past. In support of this position the Committee noted the following: several key economic series, including consumer sentiment and certain components of the National Association of Purchasing Managers Index, appear to have stabilized, the Federal Reserve has generally acted more quickly to lower short term interest rates and increase monetary growth than was expected in December, consumer spending has held up reasonably well and vehicle output is increasing after many months of decline.

As a result of the new forecast by the Economic Forecast Committee, the Technical Forecast Committee revised the December, 2000 General Fund-Property Tax Replacement Fund revenue forecast. The Committee reduced the forecast for Fiscal Year 2001 by an additional \$205.6 million. When this reduction is combined with the December reduction of \$251.5 million, the Budget Agency now estimates that total General Fund- Property Tax Replacement Fund revenues for Fiscal Years 2001 – 2003 will be about \$1,630.6 million less than total revenues would have been expected to be for the same period without the current economic slowdown. For a discussion of how this revenue reduction is expected to impact State balances and reserves for the 2002-2003 biennium, see "FINANCIAL RESULTS OF OPERATIONS—Combined State Balances and Reserves."

Table 1 shown below summarizes actual Operating Revenues for the Fiscal Years ended June 30, 1996 through June 30, 2000 (the "Discussion Period"), as well as the Budget Agency's projected Operating Revenues for the Fiscal Year ending June 30, 2001 through 2003. The revenues summarized herein are derived from the Budget Agency's unaudited end-of-year working balance statements. See "FINANCIAL RESULTS OF OPERATIONS," including Tables 5 and 6.

**Table 1**  
**State Operating Revenues**  
(millions of \$)

	<u>FY 1996</u>	<u>FY19 97</u>	<u>Actual</u> <u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>Projected</u> <sup>(1)</sup> <u>FY 2002</u>	<u>FY 2003</u>
Individual Income Tax								
General Fund	\$2,966.3	\$3,196.5	\$3,434.8	\$3,699.3	\$3,753.3	\$3,843.1	\$4,037.0	\$4,290.0
Sales and Use Tax								
General Fund	1,751.2	1,921.8	1,933.8	2,023.0	2,167.1	2,199.4	2,315.5	2,423.1
Property Tax								
Replacement Fund	<u>1,215.0</u>	<u>1,191.1</u>	<u>1,317.1</u>	<u>1,373.0</u>	<u>1,484.3</u>	<u>1,490.3</u>	<u>1,569.1</u>	<u>1,642.0</u>
Subtotal <sup>(1)</sup>	\$2,966.2	\$3,112.9	\$3,250.9	\$3,396.0	\$3,651.4	\$3,689.7	\$3,884.6	\$4,065.1
Corporate Income Tax								
General Fund	\$ 881.9	\$ 899.2	\$ 938.1	\$972.3	\$ 859.2	\$807.4	\$824.0	\$845.6
Property Tax								
Replacement Fund	<u>100.1</u>	<u>100.1</u>	<u>77.4</u>	<u>72.1</u>	<u>126.1</u>	<u>92.6</u>	<u>94.0</u>	<u>95.4</u>
Subtotal <sup>(1)</sup>	\$ 982.0	\$ 999.3	\$1,015.5	\$1,044.4	\$ 985.3	\$900.0	\$918.0	\$941.0
Other – General <sup>(1)</sup>	655.9	736.2	780.7	801.0	809.9	726.1	705.9	690.8
TOTAL GF And PTRF	\$7,570.4	\$8,044.9	\$8,481.9	\$8,940.7	\$9,199.9	\$9,158.9	\$9,545.5	\$9,986.9

Note: Fiscal Year ended June 30

<sup>(1)</sup> Amounts projected by the Revenue and Technical Forecast Committee on April 11, 2001 have been adjusted for Fiscal Years 2001 through 2003 for revenue reductions enacted by the 1999 and 2000 General Assembly. See "STATE BUDGET PROFILE—Revenue Reductions."

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Source: State Budget Agency

Sales and use, and corporate and individual income taxes are the three primary sources of State Operating Revenues. In Fiscal Year 2000, combined revenues from those sources comprised about 91.2% of total State Operating Revenues. The following is a summary description of each of those revenue sources. See "FINANCIAL RESULTS OF OPERATIONS," including Table 5, "Combined General and PTR Fund."

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## Revenue Growth

Annual percentage increases for each component of Operating Revenues are reflected in Table 2 shown below.

**Table 2**  
**Growth in State Operating Revenues**  
**(by percentage)**

<u>Fiscal Year</u>	<u>Individual Income Tax Revenue</u>	<u>Sales and Use Tax Revenue</u>	<u>Corporate Income Tax Revenue</u>	<u>Other Revenue</u>	<u>Total Revenue</u>
1996	7.2	5.6	3.3	-15.9	3.6
1997	6.4 <sup>(1)</sup>	4.9	1.8	12.2	6.3
1998	7.5	4.4	1.6	8.9	5.7
1999	7.7	4.5	2.9	3.2	5.5
2000	1.5	7.5	(5.7)	1.2	2.9
<u>Average</u>					
FY96-FY00	6.1	5.4	.8	1.9	4.8
2001 projected	7.0 <sup>(2)</sup>	1.3	-3.6 <sup>(2)</sup>	-3.9 <sup>(2)</sup>	2.7
2002 projected	6.1 <sup>(2)</sup>	5.5	1.5 <sup>(2)</sup>	-0.7 <sup>(2)</sup>	4.9
2003 projected	7.5 <sup>(2)</sup>	5.0	1.5 <sup>(2)</sup>	0.0 <sup>(2)</sup>	5.4

<sup>(1)</sup> The State received an additional estimated \$41.8 million of individual income tax receipts in Fiscal Year 1997 which are not reflected above, but are reflected in Tables 1 and 5. These additional receipts resulted from refunds that would ordinarily have been made in Fiscal Year 1997 but which were actually made in Fiscal Year 1998.

<sup>(2)</sup> Represents projected growth rates after adjusting for a number of tax reductions enacted by the 1999 and 2000 General Assembly. See "STATE BUDGET PROFILE-Revenue Reductions" below.

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Source: State Budget Agency

## Revenue Reductions

State tax rates were not increased at any time during the Discussion Period. As a result of continuing strong growth in State revenues and record reserves and balances, the 1999 General Assembly enacted targeted tax cuts that have resulted in reductions in income taxes. In addition, in November, 1999, the General Assembly met for five days (which were counted as 2000 session days) and enacted a reduction in the State financial institutions tax. See "STATE BUDGET PROFILE—Corporate Income Taxes." The tax cuts enacted by the 1999 and 2000 General Assemblies are projected to contribute to decreased total combined State balances and reserves. See "FINANCIAL RESULTS OF OPERATIONS--Combined State Balances and Reserves." A summary of the tax cuts and other actions of the 1999 General Assembly follows:

- An increase in the renter's deduction from \$1,500 to \$2,000 per year. It was estimated this would decrease individual income tax receipts by \$10.9 million for Fiscal Year 2001.
- An increase in the exemption for school age dependents from \$1,500 to \$2,500 per year. It was estimated this would decrease individual income tax receipts by \$58.6 million for Fiscal Year 2001.
- An increase in the deduction from \$1,000 to \$1,500 for persons age 65 and older who earn less than \$40,000 annually. It was estimated this would decrease individual income tax receipts by \$8.9 million for Fiscal Year 2001.

- A change to turn the State earned income tax deduction for families earning \$12,000 or less enacted by the 1997 General Assembly into a refundable tax credit. It was projected this would effectively decrease net receipts by \$3.4 million for Fiscal Year 2001.
- A change to allow an exemption for the first \$12,500 assessed value in personal property, including inventory, from the property tax. When this law was passed by the 1999 General Assembly, it was estimated this change would decrease net property tax collections for local government by \$41.2 and \$84.2 million for Fiscal Years 2000 and 2001 respectively. Since the State replaces the revenue lost to local government, the impact to the State is an increase in State Property Tax Replacement Fund expenditures. By February, 2000, it became apparent that this exemption would decrease net property tax collections for local government, and increase State Property Tax Replacement Fund expenditures, by significantly more than the original estimate. For Fiscal Year 2000 the actual cost to the State of this exemption was \$91.9 million, \$50.7 million more than first estimated in 1999. It is now estimated this credit will decrease net tax collections to local government, and increase State expenditures, by an additional \$107.0 million for Fiscal Year 2001. So, it is currently estimated this exemption will increase State Property Tax Replacement Fund spending by a total of \$191.2 million for Fiscal Year 2001.
- A change to allow businesses and farmers to deduct 100% of property tax payments from State taxable income and allow homeowners to deduct up to \$2,500 in property taxes from State taxable income. It was estimated these changes would decrease net collections by \$146.5 million for Fiscal Year 2001.

The 1999 General Assembly also shifted certain welfare costs from counties to the State. It was estimated this change would increase State distributions \$46.4 million for Fiscal Year 2001.

A summary of the actions of the 2000 General Assembly, which occurred in November 1999, follows:

- A reduction in the State financial institutions tax. It was projected this would effectively decrease net receipts by \$5.0 million for Fiscal Year 2001.
- This General Assembly also extended a research and development tax credit that was set to expire in 1999. As a result, the tax credit did not expire and corporate tax collections will not increase by an estimated \$3.1 million for Fiscal Year 2001.

## Lottery and Gaming Revenues

Gaming Revenues are dedicated funds and are not included in State Operating Revenues. However, Gaming Revenues represent a significant source of discretionary funding for the State. On January 22, 2001, the State Budget Agency estimated Gaming Revenues for the 2002-2003 biennium. The estimate reflected the State would have an unobligated balance of Gaming Revenues totaling about \$349 million on June 30, 2001. In addition, new Gaming Revenues available to the State for the 2002-2003 biennium are estimated to total \$463 million per year.

By statute, certain revenues from the Hoosier Lottery (after pension account transfers) and the riverboat gaming wagering tax, horse racing pari-mutuel wagering tax and charity gaming taxes and license fees (collectively, "Gaming Revenues") must be deposited in the Lottery and Gaming Surplus Account (the "Surplus Account") of the Build Indiana Fund, which was established by the General Assembly in 1989 when the Hoosier Lottery was authorized and began operations.

From Fiscal Year 1990 through June 30, 2000, \$2,628.0 million of Gaming Revenues have been transferred to the State. In Fiscal Year 2000, Gaming Revenues totaling \$383.9 million were deposited in the Surplus Account from the following sources:

Hoosier Lottery	\$113.2 million <sup>(1)</sup>
Riverboat gaming	246.1 million
Horse racing	2.4 million
Charity gaming	4.0 million
Interest earnings	18.1 million

- (1) The 1999 General Assembly increased the annual transfer of Hoosier Lottery revenues for pension funding from \$40.0 million to \$60.0 million beginning with Fiscal Year 2000. The \$113.2 million does not include the \$60.0 million — \$30.0 million to the State Teachers' Retirement Fund and \$30.0 million to the Local Police and Fire Pension Relief Fund — transferred to the pension funds before remaining Hoosier Lottery revenues were transferred to the Surplus Account. Therefore, total lottery revenues for Fiscal Year 2000 were \$173.2 million. See "STATE RETIREMENT SYSTEMS."

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Source: State Budget Agency.

All Gaming Revenues are appropriated by the General Assembly, and the statute that governs deposits of those revenues also governs priority of distribution in the event that revenues fall short of appropriations. At present, the highest distribution priority is to the State's counties for motor vehicle excise tax replacement providing for a substantial cut in the excise tax charged on motor vehicles — estimated at \$235 million for Fiscal Year 2001, the second year of the current biennium and each year thereafter. After payment of the motor vehicle excise tax replacement, funds remaining in the Surplus Account are transferred to the State and Local Projects Account where second priority distributions are made to the Indiana Technology Fund — \$52.6 million for the 2002–2003 biennium. This appropriation includes \$48.6 million to help schools and libraries expand their technological capabilities and \$4 million for the Intelnet Commission for continued development of the State computer "backbone."

All remaining gaming funds are subject to discretionary appropriation by the General Assembly. Although it has been State policy to not use gaming revenues to fund operating expenses of the State, the 2001 General Assembly made a decision to use excess Gaming revenues on a temporary basis to help offset General Fund revenue decreases resulting from the current economic slowdown. The 2001 General Assembly included a provision in the State's 2002-2003 biennial budget to transfer \$200 million in Fiscal Year 2002 and \$175 million in Fiscal Year 2003 from the Build Indiana Fund to the Property Tax Replacement Fund (PTRF) to help balance the State budget. Because there were significant balances in the Build Indiana Fund, the General Assembly was able to appropriate funds for additional priorities as well. In addition to the transfers to the PTRF, the 2002-2003 biennial budget includes \$78 million for the biennium for local capital projects, \$29 million each year for higher education technology, \$25 million each year for the 21<sup>st</sup> Century Research and Technology Fund, \$15 million each year for community wastewater and drinking water grants and loans, and \$9 million for the biennium for local election and voter registration equipment.

The Budget Agency has estimated that after funding existing commitments for pension funds and motor vehicle excise tax replacement, after making the transfers to the Property Tax Replacement Fund and making deductions for the above spending priorities, there will be a balance in the Build Indiana Fund - State and Local Projects Account of about \$9 million on June 30, 2003. (See, "FINANCIAL RESULTS OF OPERATIONS — 2002-2003 Biennial Budget").

### **The State's 2002-2003 Biennial Budget**

The Budget Agency estimates the current economic downturn will cause General Fund-PTRF revenues for Fiscal Years 2001 – 2003 to be about \$1,630 million less than what total revenues would have been expected to be for the same period without the economic slowdown. (See, "STATE BUDGET PROFILE — Revenue Forecast") This expected reduction in Operating Revenues for the 2002-2003 biennium presented the Governor and the General Assembly with a difficult challenge in preparing the biennial State budget. To address this revenue shortfall, the General Assembly adopted a financial plan that relies on the three following actions:

- Transfers to the General Fund-Property Tax Replacement Fund from Gaming Revenues and the Rainy Day Fund.

The 2001 General Assembly included a provision in the State's 2002-2003 biennial budget to transfer \$200 million in Fiscal Year 2002 and \$175 million in Fiscal Year 2003 from the Build Indiana Fund to the Property Tax Replacement Fund (PTRF). This increases the amount available to spend from the General Fund-PTRF by \$375 million for the biennium. (See, "STATE BUDGET PROFILE — Lottery and Gaming Revenues")

The State's 2002-2003 biennial budget also provides two separate mechanisms for transfer of funds from the Rainy Day Fund to the General Fund. First, the budget establishes a maximum balance in the Rainy Day Fund for the 2002-2003 biennium. The maximum is effectively set at the Fund balance existing on June 30, 2001- an amount currently estimated to be about \$535 million. The Budget Agency estimates this provision will result in a transfer of \$26.7 million from the Rainy Day Fund to the General Fund in each year of the biennium.

Second, with the approval of the Governor, and after review by the State Budget Committee, the Budget Agency may transfer, in each year of the biennium, from the Rainy Day Fund to the General Fund, amounts determined by the Budget Director to be necessary to maintain a positive balance in the General Fund. This provision effectively permits the Budget Agency to transfer funds from the Rainy Day Fund to the General Fund to cover all General Fund-PTRF spending authorized in the biennial budget. It is currently estimated that no Rainy Day Fund transfers will be needed during the 2002-2003 biennium to balance the General Fund—PTRF budget period. However, this provision exists and is available should actual revenue collections fall short of the State revenue forecast period. (See, "FISCAL POLICIES — Rainy Day Fund" and "FINANCIAL RESULTS OF OPERATIONS — Fund Balances, Rainy Day Fund")

- Possible delays in payments for local school aid, higher education and property tax relief. Although the General Assembly appropriated a full years funding for each year of the biennium for local school aid, higher education and property tax relief, the budget passed by the General Assembly effectively permits the Budget Agency to delay until Fiscal Year 2003 one regular payment for each purpose that would otherwise have been made in Fiscal Year 2002. This could have the effect of moving as much as a total of \$573.9 million in appropriations for the 2002-2003 biennium into the 2004-2005 biennium. It is not clear at this time how much, if any, of these payments will actually be delayed. The Governor and the Budget Agency will make decisions about payment delays based largely on State revenue collections over the remaining months of Fiscal Year 2001 and Fiscal Year 2002.
- Modest spending reductions in general governmental operations. The final spending plan agreed to by the Governor and the General Assembly for the 2002-2003 biennium increased the requirement for General Fund-PTRF reversions – funds appropriated but left unspent at the end of a Fiscal Year - by \$25 million for each year. These "mandatory reversions" are expected to cause total General Fund-PTRF spending for the operation of government to be \$25 million less than otherwise would have been expected for each year of the biennium. It is expected that under the direction of the Governor, the Budget Agency will selectively reduce budget allotments to create the mandatory reversions. (See, "FISCAL POLICIES — Accounting System")

The actions outlined above permitted passage of a budget that included funding increases for essential governmental services and made strategic economic investments for the 2002-2003 biennium. Those appropriation increases can be described in three broad categories:

- those reflecting the State's commitment to invest in primary, secondary and higher education.
- a continuing commitment to support the development and use of new technology and promote economic development.
- public safety, including increased spending to open and operate two new correctional facilities.
- those aimed at improving the care of developmentally and mentally challenged adults and children.

For Fiscal Year 2002, the first year of the new biennium, estimated spending for the five largest functional categories total \$8,595.0 million, or about 84.1% of the General Fund - PTR Fund combined total. Following is a discussion of those five largest categories. Numbers are derived from the Budget Agency's biennial List of Appropriations and unaudited working statements. See "FINANCIAL RESULTS OF OPERATIONS," including "Table 5, Combined General and PTR Fund."

**Local School Aid.** The State's largest operating expense payable from both the General Fund and PTRF is for local school aid. Local school aid includes distributions for programs such as assessment and performance in addition to direct tuition support. As a matter of long-standing fiscal policy, the General Assembly funds increases in local school aid above the base by appropriating one-half of the increases from the General Fund and one-half of

such increases from the PTRF. The General Assembly established the State's calendar year 1972 funding level as a base for local school aid.

As a result of lower than expected local property tax collections and higher than expected school enrollments, distributions to local schools under the school formula are expected to exceed the appropriation for Fiscal Year 2001 by about \$53.6 million. To address this appropriation shortfall, the 2001 General Assembly passed a deficiency appropriation of \$53.6 million for Fiscal Year 2001 and the Budget Agency has adjusted estimated State expenditures in Fiscal Year 2001 to reflect the increased expenditure.

Local school formula funding for direct tuition support on a school by school basis increased by an average of 3.5% for calendar years 2002 and 2003 with no school corporation receiving an increase of less than 2.0% in regular tuition dollars. Combined local school aid appropriations for Fiscal Year 2002 from the General Fund—PTRF total \$4,241.1 million and constituted 41.5% of the combined General Fund—PTRF budget.

The 2002—2003 biennial budget also included funding for several new or expanded initiatives. The budget included \$20 million for professional teacher development in Fiscal Year 2003, \$10 million per year to implement full day kindergarten, \$2.5 million per year for reading diagnostic assessment and funding to move the kindergarten enrollment date from June 1 to July 1.

**Higher Education.** The second largest operating expenditure, payable solely from the General Fund, is aid to higher education. Higher education aid includes appropriations to State-supported higher education institutions equal to debt service due on qualified debt of such institutions. See "Fee Replacement Appropriations to State Universities and Colleges" below. General Fund appropriations for higher education for Fiscal Year 2002 total \$1,409.8 million and constitute about 13.8% of the estimated combined General and PTR Fund spending level. This represents an increase for Higher Education of about \$62.1 million, or 4.6%, over estimated Fiscal Year 2002 spending.

Appropriations for the 2002-2003 biennium include \$3.25 million per year for additional community college start-ups, \$6 million to freeze fees at Vincennes University and Indiana Vocational Tech College in support of the community college program and \$4.8 million for a new School of Informatics at Indiana University.

#### Fee Replacement Appropriations to State Universities and Colleges

Since Fiscal Year 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding Student Fee and Building Facilities Fee Bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee Replacement Appropriations"). The annual Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the State constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the present policy will continue for outstanding bonds and notes.

The (a) estimated aggregate principal amount of bonds and notes issued by State universities and colleges and outstanding on June 30, 2000, which is eligible for Fee Replacement Appropriations, and (b) amount of Fee Replacement Appropriations with respect thereto for Fiscal Year 2001 is shown below.

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	Estimated Amount of Debt Outstanding	Fiscal Year 2002 Fee Replacement Appropriation
Ball State University	\$ 67,135,000	\$ 9,460,987
Indiana University <sup>(1)</sup>	426,142,045	52,323,279
Indiana State University	56,785,000	7,159,560
Indiana Vocational Tech College	74,126,330	10,044,038
Purdue University <sup>(2)</sup>	197,467,294	33,643,833
University of Southern Indiana	34,458,101	3,989,274
Vincennes University	<u>16,176,421</u>	<u>2,070,468</u>
Total	\$872,290,191	\$118,691,439

<sup>(1)</sup> Includes its regional campuses other than Indiana University-Purdue University at Fort Wayne.

<sup>(2)</sup> Includes its regional campuses other than Indiana University-Purdue University at Indianapolis.

Source: Indiana Commission for Higher Education.

**Property Tax Relief.** The third largest operating expenditure, payable solely from the PTRF, is for property tax relief. The budget for the 2002-2003 biennium extended the Homestead Credit at 10% until December 31, 2003. The 10% level was set to expire and return to 4% on December 31, 2001. Spending for property tax relief, including the Homestead Credit and additional credits enacted by the 1999 General Assembly is expected to total \$1,206.7 million for Fiscal Year 2002, about 11.7% of the combined General Fund-PTRF spending level. See “STATE BUDGET PROFILE—Revenue Reductions.”

**Medicaid.** The fourth largest operating expenditure, payable largely from the General Fund is the State's share of Medicaid assistance. On April 11, 2001, the Department of Family and Social Services updated its December, 2000 Medicaid forecast. Based on the April forecast, Medicaid expenditures for Fiscal Year 2001 are expected to total \$1,091.8 million. This represents an increase over actual expenditures for Fiscal Year 2000 of \$122.3 million, an increase of about 12.6%. This total exceeds the appropriation for Fiscal Year 2001 by about \$73.9 million. Spending estimates for Medicaid on the State's Combined General-PTR Fund statement have been increased by \$72.9 million for Fiscal Year 2001. The State has a Medicaid Reserve Account which on June 30, 2000 had a balance of \$203.8 million. It is expected the Medicaid Reserve will be used to cover the estimated \$73.9 million appropriation shortfall for Fiscal Year 2001. See, “FINANCIAL RESULTS OF OPERATIONS—Medicaid Reserve.”

The Budget Agency adjusted the Medicaid forecast to reflect actual cash outlays for each year. After adjustment, estimated expenditures total \$1,178.5 million for Fiscal Year 2002 and \$1,273.9 million for Fiscal Year 2003. This represents a first year increase of \$86.7 million or about 7.9%. This comparatively large increase is partly due to the State's aggressive effort to enroll children in the Children's Health Insurance Program (CHIP). However, the forecast also reflected relatively large increases for reimbursements to hospitals and pharmacy drugs. As a result, the spending plan adopted by the General Assembly for 2002-2003 includes an aggressive package of cost containment initiatives aimed at reducing the growth in State spending for Medicaid. The most significant initiatives include:

- A requirement for the provision of a program for managed care in certain counties by January 1, 2003
- Implementation of a pharmaceutical benefit management program (PBM) for the Medicaid prescription drug program by September 1, 2001
- Implementation of a disease management program for Medicaid recipients with certain high cost diseases by July 1, 2002
- In cooperation with State Attorney General's office, conduct an audit of the State Medicaid prescription drug program to identify incorrect billing procedures or fraud

- Reduce reimbursements to hospitals and nursing homes by about 5%
- Eliminate Medicare crossover claims
- Reduce the pharmacy dispensing fee from \$4.00 to \$3.00 per filled prescription
- Extend the use of generic drugs permitted under the Medicaid program to CHIP
- Reduce reimbursement rates for over the counter drugs by 10%

This comprehensive package of cost containment initiatives was expected to result in decreased expenditures of up to \$81 million for Fiscal Year 2002 and \$120 million for Fiscal Year 2003. However, it is not certain that all of these initiatives will be fully implemented as early as contemplated by the General Assembly. Therefore, actual savings may not be as great as the initial estimates.

The budget also included funding for increased base spending on Medicaid. The budget plan specifically authorized increased spending for the following:

- Targeted physician fee increases
- An increase in the number of Medicaid waiver slots
- An increase in Medicaid waiver reimbursement rates
- An increase for placements in group homes

Increased spending for these items is expected to cost up to \$14.7 million for Fiscal Year 2002 and \$30.5 million for Fiscal Year 2003.

After considering savings estimated to result from the cost containment initiatives and increased base spending authorized under the new budget, the General assembly set appropriations for the State share of Medicaid at \$1,171.5 million for Fiscal Year 2002 and \$1,249.5 million for Fiscal Year 2003. This represents approximately 11.5% of combined General-PTR Fund appropriations for Fiscal Year 2002. The General Assembly placed the Medicaid Reserve for the biennium at \$100 million. See "FINANCIAL RESULTS OF OPERATIONS," including "Table 5, Combined General and PTR Fund" and "Medicaid Reserve."

**Department of Correction.** The fifth largest operating expenditure, payable almost entirely from the General Fund, is for the Department of Correction. To meet a growing prison population, the 1997 General Assembly authorized the State Office Building Commission to issue bonds to finance the construction of: (1) Phase I of the Miami Correctional Facility, an additional medium security facility to provide 1,400 beds for adult males in Miami County, Indiana; (2) an additional 350 bed correctional facility for male juveniles near Pendleton, Indiana; and, (3) a special needs facility with 1,800 beds to be converted from an existing State institution near New Castle, Indiana. In addition, the 1999 General Assembly authorized the State Office Building Commission to issue bonds to finance Phase II of the Miami Correctional Facility. See "STATE INDEBTEDNESS—Authorized but Unissued Debt." Phase I of the Miami Correctional Facility was completed in July, 1999. The Pendleton Juvenile Facility opened in July, 2000. Phase II of the Miami Correctional Facility and The New Castle Correctional Facility are both expected to be open and start receiving inmates in the Fall of 2001. The opening of these two new facilities will cause spending for corrections to grow in the 2002-2003 biennium. Appropriations for the Department of Correction for Fiscal Year 2002 total \$565.9 million, an increase over actual estimated Fiscal Year 2000 spending of about \$36.5 million or 6.9%. Department of Correction accounts for about 5.5% of total General Fund-PTRF appropriations for Fiscal Year 2002.

**Other.** The balance of State expenditures is comprised of spending for a combination of other purposes, the principal ones being the costs of institutional care and community programs for persons with mental illnesses and developmental disabilities, State administrative operations, the State's share of public assistance payments, the General Fund's one-half share of State Police costs, State economic development programs and General Fund expenditures for capital budget needs of the State. For Fiscal Year 2000 other combined General Fund-PTRF

appropriations total \$1,625.0 million. This constitutes approximately 15.9% of the estimated combined General and PTR Fund spending level for all purposes.

**Transfers.** In addition to direct General Fund expenditures, transfers may be made out of or into the General Fund. The principal transfers are (a) from the General Fund to the PTRF and the Rainy Day Fund or (b) from the Rainy Day Fund to the PTRF and the General Fund and for the 2002-2003 biennium, (c) from the Build Indiana Fund to the General Fund. See "FISCAL POLICIES—Rainy Day Fund," "FINANCIAL RESULTS OF OPERATIONS," including "Table 5, Combined General and PTR Fund" and "STATE BUDGET PROFILE—Lottery and Gaming Revenues."

## **FINANCIAL RESULTS OF OPERATIONS**

### **Fiscal Management**

Indiana's fiscal policy is aimed at building and maintaining strong unappropriated balances and reserves in its Rainy Day and combined General and PTR Fund, while adequately funding education and other essential governmental functions, wisely managing debt issuance and aggressively addressing unfunded liabilities in State pension, or retirement systems, especially the State Teachers' Retirement Fund. See also "STATE RETIREMENT SYSTEMS."

### **Fund Balances**

The State has four primary funds that build or hold unappropriated reserves: the Rainy Day Fund, Tuition Reserve, Combined General and PTR Fund and the Medicaid Reserve Account. The Medicaid Reserve Account will be included as a part of the State's combined balances and reserves on July 1, 2001. Each of these funds is described below.

**Rainy Day Fund.** One of three primary funds into which general purpose tax revenues are deposited, the Rainy Day Fund is a statutorily required State savings account that permits the State to collect and maintain substantial revenues during periods of economic expansion for use during periods of economic recession. As described under "FISCAL POLICIES — Rainy Day Fund," access to and balances in the Rainy Day Fund are determined by statutory formula, subject to future General Assembly action. The Rainy Day Fund has been funded at the maximum permitted by law in each of the last four Fiscal Years. The Rainy Day Fund is currently funded at the maximum allowable balance, \$539.9 million. The Budget Agency had projected that the balance would increase to about \$567.4 million, \$2.8 million less than the estimated maximum allowable balance, by June 30, 2001. However, because of reduced revenue collections for Fiscal Year 2001, it is now estimated the new maximum allowable balance on June 30, 2001 will be just \$534.3 million. (See, STATE BUDGET PROFILE — Revenue Forecast") This is expected to lead to a transfer from the Rainy Day Fund to the General Fund of \$33.1 million on June 30, 2001.

In addition, the State's 2002-2003 biennial budget provides two separate mechanisms for transfer of funds from the Rainy Day Fund to the General Fund during Fiscal Year 2002 and 2003. First, the budget establishes a maximum balance in the Rainy Day Fund for the 2002-2003 biennium. The maximum is effectively set at the Fund balance existing on June 30, 2001- an amount currently estimated to be about \$534.3 million. The Budget Agency estimates this provision will result in a transfer of \$26.7 million from the Rainy Day Fund to the General Fund in each year of the biennium. These transfers will result in balances in the Rainy Day Fund on June 30, 2002 and 2003 that are \$20.7 million and \$46.3 million less than the maximum balance allowed for each respective year.

Second, with the approval of the Governor, and after review by the State Budget Committee, the Budget Agency may transfer, in each year of the biennium, from the Rainy Day Fund to the General Fund, amounts determined by the Budget Director to be necessary to maintain a positive balance in the General Fund. This provision effectively permits the Budget Agency to transfer funds from the Rainy Day Fund to the General Fund to cover all General Fund-PTRF spending authorized in the biennial budget. It is currently estimated that no Rainy Day Fund transfers will be needed during the 2002-2003 biennium to balance the General Fund-PTRF budget. However, this provision exists and is available should actual revenue collections fall short of the State revenue forecast.



The State has never had any automatic withdrawals from the Rainy Day Fund to the General Fund. Rainy Day Fund balances are reflected on Table 3.

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**Table 3**  
**Rainy Day Fund**  
**Schedule of Cash Flow**  
**(millions of \$)**

	Actual .....					Projected		
	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001<sup>(1)</sup></u>	<u>FY 2002</u>	<u>FY 2003</u>
Beginning Cash Balance	\$ 419.3	\$ 439.5	\$ 466.1	\$ 496.1	\$ 524.7	\$ 539.9	\$534.3	\$534.3
Interest Earned <sup>(2)</sup>	18.8	25.7	27.2	27.5	29.8	27.0	26.7	26.7
Loans Made from Fund <sup>(3)</sup>	-	-	-	-	-	-	-	-
Principal Payments and Sale Proceeds <sup>(4)</sup>	0.9	0.7	0.5	0.5	0.5	0.5	-	-
Net Transfers by Law <sup>5)</sup>	0.6	0.2	2.4	0.6	(15.1)	(33.1)	(6.0)	-
Trf to Maintain Balance	N/A	N/A	N/A	N/A	N/A	N/A	(20.7)	(20.7)
Ending Cash Balance	\$ 439.5	\$ 466.1	\$ 496.1	\$ 524.7	\$ 539.9	\$ 534.3	\$534.3	\$534.3
Maximum Allowable Fund Balance	\$ 439.5	\$ 466.1	\$ 496.1	\$ 524.7	\$ 541.1	\$ 534.3	\$551.1	\$580.7
Loans Outstanding <sup>(6)(7)</sup>	\$ 2.8	\$ 2.1	\$ 1.4	\$ .8	0.5	-	-	-

Notes: Totals may not add as a result of rounding.  
Fiscal Years ended June 30

- (1) Revenues upon which transfers are projected are those projected by the Technical Forecast Committee on April 11, 2001; expenditures are those authorized by the 2001 and prior General Assemblies. Amounts are merely projections, and actual results may differ materially from such projections. Factors that could cause actual results to differ materially from projections include future economic conditions in Indiana, including retail sales, individual income and corporate income in Indiana and future changes to Indiana's tax laws and appropriations by the General Assembly. See "STATE BUDGET PROFILE—Revenue Growth."
- (2) Interest assumed at 5.0% for Fiscal Years 2001-2003; includes interest payments received on loans made.
- (3) Reserved to reflect loans made out of the Rainy Day Fund during the Fiscal Year indicated. No loans were made during the Discussion Period, and no projections of loans are made for Fiscal Years 2001-2003.
- (4) Payments of principal received on loans made plus proceeds of the sale of a loan made to the City of Indianapolis, as more fully described in note 7.
- (5) Net Transfers reflect: (a) in Fiscal Year 1996, a \$106.7 million transfer from the General Fund and a \$106.1 million transfer to the PTRF; (b) in Fiscal Year 1997, a \$19.8 million transfer from the General Fund and a \$19.6 million transfer to the PTRF; (c) in Fiscal Year 1998, a \$21.1 million transfer from the General Fund and \$18.7 million transfer to the PTRF; (d) in Fiscal Year 1999, a \$140.9 million transfer from the General Fund and a \$140.3 million transfer to the PTRF; (e) in Fiscal Year 2000, a \$162.1 million transfer to the PTRF; and a \$147.0 million transfer from the General Fund; (f) in Fiscal Year 2001, a \$192.2 million transfer to the PTRF; and a \$159.1 million transfer from the General Fund; (g) in Fiscal Year 2002, a \$6.0 million transfer to the PTRF; and no transfer from the General Fund; and, (h) in Fiscal Year 2003, there are no projected transfers.
- (6) The amount of loans outstanding is not reflected in the ending cash balance statements.
- (7) From time to time, the General Assembly has authorized the State Board of Finance to lend moneys in the Rainy Day Fund to specified local governments for specified purposes. There are currently no loans outstanding. No further loans may be made without authorization by the General Assembly.

Source: State Budget Agency.

**Tuition Reserve.** The Tuition Reserve is essentially a cash flow device that is intended to ensure that local school aid payments are timely. Pursuant to State statute, prior to each June 1, the Budget Agency is required to estimate and formally establish the reserve for the ensuing Fiscal Year. The Tuition Reserve was maintained at \$120.0 million from Fiscal Year 1977 through Fiscal Year 1988; however, the State steadily increased the amount of the Tuition Reserve in each of Fiscal Years 1989 through 2000. The Tuition Reserve is set at \$265.0 million for Fiscal Year 2001. The Budget Agency will establish the Tuition Reserve for Fiscal Year 2002 on or about June 1, 2001. It is currently expected that the Budget Agency will maintain the Reserve for both Fiscal Years 2002 and 2003 at \$265 million.

**Table 4**  
**Tuition Reserve**  
**(millions of \$)**

Actual						Projected	
<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
\$ 215.0	\$ 240.0	\$ 240.0	\$ 255.0	\$ 265.0	\$ 265.0	\$265.0	\$265.0

Note: For Fiscal Year ended June 30

Source: State Budget Agency

**Combined General and PTR Fund.** The PTRF was created by statute in Fiscal Year 1973. It is funded from 40% of revenues from the State sales and use tax and a portion of corporate adjusted gross income tax receipts. The PTRF is used for two purposes: first, to replace local property tax levies ("PTRF Credits"), which were reduced by the same statute that created the PTRF; and, second, for local school aid. To the extent that the PTRF does not have sufficient revenues to make authorized payments, General Fund transfers may be made to the PTRF. In Fiscal Year 1999, \$581.8 million was transferred from the General Fund to balance the PTRF. It is expected that substantial General Fund transfers will also be required in future Fiscal Years.

The General Fund and the PTRF are the primary funds into which general purpose tax revenues, or Operating Revenues, are deposited or transferred. Although reported as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTRF with those of the General Fund to provide a more complete and accurate description of the State's Operating Revenues and discretionary spending, especially for local school aid and property tax relief. Therefore, the General Fund and the PTRF are sometimes discussed in this Appendix A as a single, combined fund.

This discussion, and Table 5, summarize the actual results of State operations for the Discussion Period, as well as the Budget Agency's projected financial results of operations for the Fiscal Years ending June 30, 2001, for the combined General and PTR Fund.

The financial results summarized in this discussion are derived from the Budget Agency's unaudited end-of-year working balance statements. The working balance statements are a listing of revenues, expenditures and unappropriated (or working) balances at the end of each Fiscal Year, before adjustment to the modified accrual basis of accounting. As a result, the working balance statements may differ from the results included in the State Auditor's annual reports.

There is not a significant difference in the method of accounting between the working balance statements and the annual reports. Expenditures on the working balance statements include continuing appropriations that were unspent at the end of each Fiscal Year. The unappropriated balance is the cumulative excess of revenues over expenditures on the working balance statements.

**Table 5**  
**Combined General and PTR Fund**  
**(millions of \$)**

	Actual.					Projected		
	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001 <sup>(1)</sup>	FY 2002 <sup>(1)</sup>	FY 2003 <sup>(1)</sup>
<b>Revenues<sup>(2)</sup></b>								
Sales and Use Taxes	\$ 2,942.3	\$3,112.9	\$3,250.9	\$3,396.0	\$3,651.4	\$ 3,689.7	\$3,884.6	\$4,065.1
Adjusted Gross Income								
Tax Individuals	2,966.3	3,196.5	3,434.8	3,699.3	3,753.3	3,843.1	4,037.0	\$4,290.0
Corporate Income Taxes	982.0	999.3	1,015.5	1,044.4	985.3	900.0	918.0	941.0
Other Taxes	299.1	321.7	340.8	373.9	370.3	376.1	380.9	375.8
Total Taxes	7,189.7	7,630.4	8,042.0	8,483.6	8,760.3	8,808.9	9,220.5	9,671.9
Interest Income	141.1	146.5	178.8	169.0	188.9	140.0	130.0	120.0
Other Revenue <sup>(3)</sup>	239.6	268.0	261.1	288.1	250.7	247.5	242.4	240.7
Transfer from Gaming	-	-	-	-	-	-	200.0	175.0
Total Revenue	7,570.4	8,044.9	8,481.9	8,940.7	9,199.9	9,320.2	9,792.9	10,207.6
<b>Appropriations and Expenditures</b>								
Local School Aid	2,961.1	3,092.2	3,423.1	3,691.8	3,894.0	4,245.4	4,241.8	4,416.2
Higher Education	1,104.2	1,101.8	1,180.5	1,248.0	1,331.5	1,389.7	1,409.8	1,439.1
PTRF Credits	784.3	822.1	873.3	946.7	1,078.6	1,176.6	1,206.7	1,184.6
Medicaid	860.9	931.3	913.3	948.5	986.1	1,091.8	1,171.5	1,249.5
All Other <sup>(4)</sup>	1,513.8	1,958.9	1,908.2	2,198.3	2,293.3	2,297.6	2,190.9	2,216.7
Subtotal Appropriations and Expenditures	7,224.3	7,906.3	8,298.4	9,033.3	9,583.5	10,218.7	10,220.0	10,506.1
<b>Less:</b>								
Reversions	-	-	-	-	-	72.5	25.0	25.0
Mandatory Reversions <sup>(5)</sup>	-	-	-	-	-	-	25.0	25.0
Total Reversions	-	-	-	-	-	72.5	50.0	50.0
Payment Delays: <sup>(6)</sup>								
Tuition Support	-	-	-	-	-	-	162.7	116.1
Higher Education	-	-	-	-	-	-	52.5	37.5
PTR Credits	-	-	-	-	-	-	95.5	68.2
Total Payment Delays	-	-	-	-	-	-	310.7	221.8
Total Expenditures	7,224.3	7,906.3	8,298.4	9,033.3	9,583.5	10,146.2	9,859.3	10,234.3
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>346.1</b>	<b>138.6</b>	<b>183.5</b>	<b>(92.6)</b>	<b>(383.6)</b>	<b>(826.0)</b>	<b>(66.4)</b>	<b>(26.7)</b>
<b>Less: Transfers to (from) Rainy Day Fund</b>	<b>0.6</b>	<b>0.2</b>	<b>2.4</b>	<b>.6</b>	<b>(15.1)</b>	<b>(33.1)</b>	<b>(26.7)</b>	<b>(26.7)</b>
Total Transfers	0.6	0.2	2.4	.6	(15.1)	(0.0)	(26.7)	(26.7)
<b>Increase (Decrease) in Fund Balance</b>	<b>360.5</b>	<b>138.4</b>	<b>181.1</b>	<b>(93.2)</b>	<b>(368.5)</b>	<b>(792.9)</b>	<b>(39.7)</b>	<b>-</b>
Beginning Balance <sup>(7)</sup>	879.3	1,239.8	1,378.2	1,559.3	1,466.1	1,097.6	304.7	265.0
Ending Balance <sup>(7)</sup>	1,239.8	1,378.2	1,559.3	1,466.1	1,097.6	304.7	265.0	265.0

(1) Revenues are those projected by the Revenue and Technical Forecast Committee on April 11, 2001; expenditures are those authorized by the 2001 and prior General Assemblies. Amounts are merely projections, and actual results may differ materially from such projections. Important factors that could cause actual results to differ materially from projections include future economic conditions in Indiana, including retail sales, individual income and corporate income in Indiana and future changes to Indiana's tax laws and appropriations by the General Assembly. See "STATE BUDGET PROFILE—Revenue Growth."

(2) Amounts projected by the Revenue and Technical Forecast Committee on April 11, 2001 have been reduced to reflect revenue reductions enacted by the 1999 and 2000 General Assemblies. See "STATE BUDGET PROFILE—Revenue Reductions."

(3) Also includes refunds of prior year expenditures, reimbursements of prior year expenditures, return of escrows to the General Fund and prior year revenue transferred to the General Fund in Fiscal Year 1996.

- (4) Includes \$72.2 million adjustment to surplus for Fiscal Year 1999 for prior year expenditures and a \$88.3 million appropriation transfer from Fiscal Year 2001 to Fiscal Year 2000 to accelerate capital projects, year 2000 remediation and School Library Printed Materials.
- (5) Reflects an increase in reversions of \$25 million per year included in the budget plan adopted by the 2001 General Assembly for the 2002-2003 biennium. (See, STATE BUDGET PROFILE — The State's 2002-2003 Biennial Budget")
- (6) Reflects payment delays included in the budget plan adopted by the 2001 General Assembly for the 2002-2003 biennium. (See, STATE BUDGET PROFILE — The State's 2002-2003 Biennial Budget")
- (7) Includes a \$215.0 million Tuition Reserve for Fiscal Year 1996 (actual), a \$240.0 million Tuition Reserve for Fiscal Year 1997 (actual), a \$240.0 million Tuition Reserve for Fiscal Year 1998 (actual), a \$255.0 million Tuition Reserve for Fiscal Year 1999 (actual), a \$265.0 million Tuition Reserve for Fiscal Year 2000 (actual), a \$265.0 million Tuition Reserve for Fiscal Year 2001 (actual), and a \$265 million Tuition Reserve for Fiscal Years 2002 and 2003 (estimated).

Notes: Fiscal Year Ended June 30

Totals may not add as a result of rounding.

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Source: State Budget Agency.

### **Combined State Balances and Reserves**

The State's total "Balances and Reserves" are defined as the balances in the combined General and PTR Fund, together with the balances in the Rainy Day Fund, the Tuition Reserve and beginning with Fiscal Year 2001, the Medicaid Reserve. To reflect the real level of Balances and Reserves on a continuing basis, they are expressed as a percent of Operating Revenues. Table 6 sets forth a history of total State Balances and Reserves compared to Operating Revenues for the past ten years and projections for Fiscal Years 2001-2003.

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**Table 6**  
**Combined State Reserves and Balances**  
**(in millions of \$)**

State Fiscal Year	Combined Property Tax-General Fund	Tuition Reserve	Rainy Day Fund	Medicaid Reserve (2)	Total Balances	Operating Revenue	Balance as % of Operating Revenues
-----Actual-----							
1991	109.4	155.0	323.0	N/A	587.4	5,560.6	10.6%
1992	138.9	165.0	328.6	N/A	632.5	5,784.5	10.9%
1993	9.7	180.0	300.6	N/A	490.3	6,098.6	8.0%
1994	90.0	190.0	370.3	N/A	650.3	6,720.1	9.7%
1995	679.3	200.0	419.3	N/A	1,298.6	7,277.0	17.8%
1996	1,024.8	215.0	439.5	N/A	1,679.3	7,569.8	22.2%
1997	1,138.2	240.0	466.1	N/A	1,844.3	7,937.8	23.2%
1998	1,319.3	240.0	496.1	N/A	2,055.4	8,481.9	24.2%
1999	1,211.1	255.0	524.7	N/A	1,990.8	8,940.7	22.3%
2000	832.6	265.0	539.9	N/A	1,637.5	9,199.9	17.8%
-----Projected-----							
2001	39.7	265.0	534.4	100.0	939.1	9,320.2	10.3%
2002	-0-	265.0	534.4	100.0	899.4 (3)	9,792.9	9.2% (3)
2003	-0-	265.0	534.4	100.0	899.4 (3)	10,207.6	8.8% (3)

Source: State Budget Agency  
Totals may not add due to rounding.

- (1) Projected balances are based on the Revenue Forecast dated April 11, 2001 and revenue and spending acts passed by the General Assembly through the 2001 Session.
- (2) The Medicaid Reserve was not included as a part of combined reserves and balances until Fiscal Year 2001.
- (3) Does not reflect any liability for payment delays. (See, explanation below)

Since Fiscal Year 1989, the state's Balances and Reserves have dropped below 10% of Operating Revenues only twice, in Fiscal Years 1993 and 1994 when such balances represented approximately 8.0% and 9.7% of Operating Revenue respectively. After Fiscal Year 1994, total balances and reserves grew significantly reaching a record 24.2% of Operating Revenues on June 30, 1998.

The 1999 General Assembly enacted a number of targeted tax reductions and spending increases. In November, 1999, the General Assembly also met for five days (which were counted as 2000 session days) and enacted an additional tax reduction and extended an existing tax credit. (See "STATE BUDGET PROFILE—Revenue Reductions") All of the tax reductions and spending increases enacted by the 1999 and 2000 General Assemblies were expected to cause combined balances on June 30, 2001 to decrease to \$1,220.7 million.

However, the December 19, 2000 revenue forecast decreased estimated General Fund revenues for Fiscal Year 2001 and only modest revenue growth of 4.9% and 4.4% for Fiscal Years 2002-2003 respectively. As a result of the current economic decline, the April 11, 2001 forecast update resulted in additional revenue decreases for Fiscal Years 2001-2003. The Budget Agency now estimates that total General Fund- Property Tax Replacement Fund revenues for Fiscal Years 2001 – 2003 will be about \$1,630.6 million less than total revenues would have been expected to be for the same period without the current economic slowdown. (See, STATE BUDGET PROFILE — Revenue Forecast") Primarily as a result of that decrease in estimated revenues, the Budget Agency now estimates that combined balances will fall to \$939.1 million, or 10.3% of Operating Revenues, on June 30, 2001. That balance

includes \$100 million in the Medicaid Reserve that was not included in combined balances and reserves prior to Fiscal Year 2001.

Combined balances and reserves reflected in Table 6 for Fiscal Years 2002 and 2003 total \$899.4 for both years. This represents 9.2% and 8.8% of Operating Revenues for each respective year. However, those figures do not reflect any liability for payment delays authorized for the 2002-2003 biennium. The Budget Agency estimates that if no funds are transferred to the General Fund from the Rainy Day Fund (beyond transfers needed to maintain the \$534.4 million maximum balance established by the General Assembly) it will lead to General Fund-PTRF payment delays totaling \$310.7 million by the end of Fiscal Year 2002 and \$532.5 million by the end of Fiscal Year 2003. Delays in payments to schools, universities and local units of government have been authorized by the 2001 General Assembly. (See, STATE BUDGET PROFILE — The State's 2002-2003 Biennial Budget”) There is no legal obligation for the State to make up for any payments that actually get delayed. And, should actual revenue exceed estimates, the additional revenue could be used to reduce payment delays. However, there is a reasonable expectation that the General Assembly will make up any payments that do get delayed in the 2002-2003 biennium with increased funding in the 2004-2005 biennium. And, under the budget plan adopted by the General Assembly, the State could elect not to delay payments by making additional transfers from the Rainy Day Fund to the General Fund. For that reason, it is reasonable to consider the effect payment delays would have on combined reserves and balances if the payment delays were considered to be a liability of the State. If estimated payment delays for the biennium were reflected as liabilities of the State, combined reserves and balances for Fiscal Years 2002 and 2003 would drop to \$588.7 million and \$366.9 million respectively. This would represent 6.0% and 3.6% of Operating Revenues for those years respectively.

The Budget Agency believes the combination of reserves and balances and the ability to delay significant payments, provides the State sufficient flexibility to manage the budget even if actual General Fund/PTRF revenues fall significantly short of the State's revenue forecast for the 2002-2003 biennium.

### **Medicaid Reserve**

In 1995, the General Assembly established the Medicaid Reserve and Contingency Account for the purpose of providing funds for the timely payment of Medicaid claims, obligations and liabilities. Prior to the start of Fiscal Year 2002, the Medicaid Reserve was intended to represent the estimated amount of obligations that were incurred, but remained unpaid, at the end of each respective Fiscal Year. For the 2002-2003 biennium, the General Assembly set the Reserve level at \$100 million, and for the first time, included the Reserve in the State's combined Balances and Reserves. The State intends to use about \$73 million of the current \$203.8 million balance in the Reserve to pay for an expected appropriation shortfall for Fiscal Year 2001. That would leave a balance in the Reserve of \$130.8 million. On July 1, 2001, it is expected that \$30.8 million will be transferred to the General Fund to set the Reserve at the \$100 million level for the 2002-2003 biennium.

## **STATE INDEBTEDNESS**

### **Constitutional Limitations on State Debt**

The State may not incur indebtedness under Article X, Section 5 of the State constitution, except in the following cases: to meet casual deficits in revenues; to pay interest on State debt; or to repel invasion, suppress insurrection or, if hostilities are threatened, to provide for the public defense. The State has no indebtedness outstanding under the Indiana constitution. See "FISCAL POLICIES—State Board of Finance."

### **Other Debt, Obligations**

Substantial indebtedness anticipated to be paid from State appropriations is outstanding, together with what are described below as "contingent obligations." Such indebtedness and obligations are described in the following pages. In addition, various State universities and colleges have issued bonds, notes and other obligations, the debt service on which, though payable from student fees and other sources, is eligible for fee replacement appropriations by the General Assembly from State general purpose tax revenues. See "STATE BUDGET PROFILE—The State's 2000-2001 Biennial Budget—Higher Education.” In addition, the commissions and authorities described below may issue additional debt or incur other obligations from time to time to finance additional facilities or projects or to refinance such facilities or projects. The type, amount and timing of such additional debt or other obligations not

already authorized is subject to a number of conditions that cannot be predicted at present. See "STATE INDEBTEDNESS—Authorized but Unissued Debt."

### **Obligations Payable from Possible State Appropriations**

The Indiana General Assembly has created certain financing entities, including the State Office Building Commission, the Transportation Finance Authority, the Recreational Development Commission and the Indiana Bond Bank which are each public bodies corporate and politic and separate from the State. These financing entities have been granted the authority to issue revenue bonds and finance the construction, reconstruction and equipping of various capital projects. Certain agencies, including the Indiana Department of Administration, the Indiana Department of Transportation and the Indianapolis Airport Authority (under an agreement with the Indiana Department of Commerce) have entered into use and occupancy agreements or lease agreements with the financing entities. Lease rentals due under the agreements are payable primarily from possible appropriation of State funds by the General Assembly. However, there is and can be under State law no requirement for the General Assembly to make any such appropriations for any facility in any Fiscal Year. No trustee or holder of any revenue bond issued by any financing entity may legally compel the General Assembly to make any such appropriations. Revenue bonds issued by any of the financing entities do not constitute a debt, liability or pledge of the faith and credit of the State within the meaning of any constitutional provision or limitation. Such use and occupancy agreements, lease agreements and obligations do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation. Following is a description of the entities that have issued bonds and the projects that have been financed with the proceeds and which are subject to use and occupancy agreements or lease agreements.

***State Office Building Commission.*** The State Office Building Commission is authorized to issue revenue bonds to finance or refinance the acquiring, construction and equipping of buildings, structures, improvements or parking areas owned or leased by the State Office Building Commission or the State for the purpose of (a) housing the personnel or activities of State agencies or branches of State government; (b) providing transportation or parking for State employees or persons having business with State government; (c) providing a building, structure or improvement for the custody, care, confinement or treatment of committed persons under the supervision of the State Department of Correction; or (d) providing a building, structure or improvement for the care maintenance or treatment of persons with mental or addictive disorders.

Pursuant to this general authority, as well as specific findings of need by the General Assembly, the State Office Building Commission has issued its revenue bonds to finance or refinance various facility projects, described below:

<u>Facility</u>	<u>Project Description</u>
Indiana Government Center Parking Facilities	Acquisition, constructing and equipping of two new multi-level parking facilities
Indiana Government Center South	Acquisition, constructing and equipping of new State office building facility
Indiana Government Center North	Renovation of and construction of improvements to original State office building facility
Wabash Valley Correctional Facility; Miami Correctional Facility, Phase I; Rockville Correctional Facility; and Pendleton Juvenile Correctional Facility	Acquisition, construction and equipping of men's maximum security correctional facility and medium security correctional facilities; acquisition, construction, renovation and equipping of women's correctional facility; and acquisition, construction and equipping of juvenile correctional facility

To see a listing by bond series of the outstanding indebtedness of the State Office Building Commission, see "STATE INDEBTEDNESS—Debt Statement—Obligations Payable From Possible State Appropriations."



The State Office Building Commission's revenue bonds are payable, or upon completion of the construction of the facility (or portions thereof) will be payable, principally from rental payments on such facility (or portions thereof) to be made by the State Department of Administration pursuant to a use and occupancy agreement for such facility (or portions thereof). The term of each such use and occupancy agreement is coextensive with the State's biennial budget, but is renewable for additional two-year terms. Rental payments by the Department of Administration with respect to each such facility are and will be subject to and dependent upon appropriations being made for such purpose by the General Assembly.

The State Office Building Commission also provides short-term, or construction, financing for certain facilities through issuance and sale "Hoosier Notes." For a more detailed description of the Commission's Hoosier Notes program, see "STATE INDEBTEDNESS— Authorized but Unissued Debt."

***Transportation Finance Authority - Highway Financing.*** The Indiana Transportation Finance Authority (the "TFA") was established in 1988 under Indiana Code 8-9.5-8, as the successor to the Indiana Toll Finance Authority. The TFA is a body corporate and politic separate from the State. When the General Assembly established the TFA, it enacted Indiana Code 8-14.5, which authorizes the TFA to: (a) undertake projects to construct, acquire, reconstruct, improve and extend the State's highways, bridges, streets and roads; (b) lease such projects to the Indiana Department of Transportation, formerly the Indiana Department of Highways; and (c) issue revenue bonds to finance or refinance such projects.

Pursuant to this authority, the TFA has issued its revenue bonds to finance the construction, acquisition, reconstruction, improvement and extension of the State's highways, bridges, streets and roads throughout Indiana. To see a listing by bond series of the indebtedness of the TFA for Highway Financing, see "STATE INDEBTEDNESS—Debt Statement—Obligations Payable From Possible State Appropriations."

The TFA's bonds are corporate obligations of the TFA and are payable, as to both principal and interest, solely from revenues derived from leases with the Department of Transportation, bond proceeds and investment earnings on bond proceeds. The TFA has no taxing power, and any indebtedness incurred by the TFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation. Debt service on the bonds is payable primarily from rental payments to be received from the Department of Transportation pursuant to certain master lease agreements between the TFA and the Department of Transportation, as supplemented. The term of each such master lease agreement is coextensive with the State's biennial budget, but is renewable for additional terms of two years, up to a maximum aggregate lease term of 25 years. Lease rentals under each such master lease agreement are payable solely from biennial appropriations for the actual use or availability for use of projects financed by the TFA, with payment commencing no earlier than the commencement of such use or availability for use.

***Transportation Finance Authority - Aviation Financing.*** In 1991, the General Assembly enacted Indiana Code 8-21-12, which authorizes the TFA to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds from time to time. The authorizing legislation defines "aviation related property or facilities" as those properties or facilities that are utilized by a lessee, or a lessee's assigns, who provides services or accommodations (a) for scheduled or unscheduled air carriers and air taxis and their passengers, air cargo operations and related ground transportation facilities, (b) for fixed based operations, (c) for general aviation or military users and (d) for aviation maintenance and repair facilities.

**Airport Facilities.** On February 11, 1992, the TFA issued \$201,320,000 aggregate principal amount of Airport Facilities Lease Revenue Bonds, Series A (the "1992 Airport Facilities Bonds"). On June 13, 1995, the TFA issued \$29,720,000 aggregate principal amount of Airport Facilities Lease Revenue Bonds, 1995 Series A (the "1995 Airport Facilities Bonds"). On December 18, 1996, the TFA issued \$137,790,000 aggregate principal amount of Airport Facilities Lease Revenue Refunding Bonds, 1996 Series A (the "1996 Airport Facilities Bonds"), to advance refund a portion of the 1992 Airport Facilities Bonds (the 1992 Airport Facilities Bonds, the 1995 Airport Facilities Bonds and the 1996 Airport Facilities Bonds, collectively, the "Airport Facilities Bonds"). As of January 1, 2001, \$217,415,000 aggregate principal amount of the Airport Facilities Bonds remains outstanding.

The 1992 Airport Facilities Bonds were issued to finance a portion of the costs of constructing and equipping improvements related to an airport and aviation related property and facilities at Indianapolis International Airport (the "Phase I Facility"), and the 1995 Airport Facilities Bonds were issued to finance a portion of the costs of

constructing and equipping additional improvements (the "Phase IA Facility"). At present, United Air Lines, Inc. is using the Phase I Facility and Phase IA Facility (collectively, the "Airport Facilities") as a major aircraft maintenance and overhaul facility. The TFA expects that United will continue to use the Airport Facilities for aircraft maintenance operations.

The TFA has acquired an undivided ownership interest as a tenant in common in a leasehold estate in the Airport Facilities and certain real property on which the Airport Facilities are situated, and the TFA has leased its undivided ownership interest therein to the Indianapolis Airport Authority pursuant to a lease agreement between the TFA, as lessor, and the Indianapolis Airport Authority, as lessee (the "Airport Facilities Lease"). The Airport Facilities Bonds are special, limited obligations of the TFA, payable solely from and secured exclusively by the TFA's pledge of a trust estate, including the rental payments to be received by the TFA from the Indianapolis Airport Authority under the Airport Facilities Lease for the payment of the principal of and interest on the Airport Facilities Bonds. Such rentals are payable by the Indianapolis Airport Authority for the use or availability for use of the Airport Facilities, solely from funds appropriated by the General Assembly and available to pay such rentals.

The Airport Facilities Bonds are not an obligation, directly or indirectly, of United Air Lines, Inc.

**Aviation Technology Center.** On December 22, 1992, the TFA issued \$11,630,000 aggregate principal amount of Aviation Technology Center Lease Revenue Bonds, Series A (the "Aviation Technology Center Bonds"). As of January 1, 2001, \$10,020,000 aggregate principal amount of the Aviation Technology Center Bonds remains outstanding.

The proceeds from the Aviation Technology Center Bonds were applied to finance the costs of constructing and equipping a new aviation technology center (the "Aviation Technology Center") at Indianapolis International Airport. Vincennes University is operating the Aviation Technology Center, and Vincennes University and Purdue University are currently conducting classes for training individuals for employment in aviation technology and other fields related to aircraft, aircraft maintenance and airport operations. Recently, a Boeing 737 aircraft was added to the Aviation Technology Center for use for educational purposes by Vincennes and Purdue Universities.

The TFA has acquired an interest in the Aviation Technology Center and certain real property on which the Aviation Technology Center is situated, and the TFA has leased its interest to the Indianapolis Airport Authority pursuant to a Lease Agreement between the TFA, as lessor, and the Indianapolis Airport Authority, as lessee (the "Aviation Technology Center Lease"). The Aviation Technology Center Bonds are special, limited obligations of the TFA, payable solely from and secured exclusively by the TFA's pledge of a trust estate, including the rental payments to be received by the TFA from the Indianapolis Airport Authority under the Aviation Technology Center Lease. Such rentals are payable by the Indianapolis Airport Authority for the use or availability for use of the Aviation Technology Center, solely from funds appropriated by the General Assembly and available to pay such rentals.

The Aviation Technology Center Bonds do not constitute an indebtedness, liability or loan of the credit of the Indianapolis Airport Authority, the State or any political subdivision thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the Indianapolis Airport Authority, the State or any political subdivision thereof. The Aviation Technology Center Bonds are not an obligation, directly or indirectly, of Vincennes University.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, see "STATE INDEBTEDNESS—Contingent Obligations—Transportation Finance Authority—Toll Road Financing."

**Recreational Development Commission.** The Indiana Recreational Development Commission (the "Recreation Commission") was created in 1973 by Indiana Code 14-14-1 and is responsible for the acquisition, construction, improvement, operation and maintenance of public recreational facilities and for facilitating, supporting and promoting the development and use of parks of the State. Pursuant to Indiana Code 14-14-1-21, the Recreation Commission and the State Department of Natural Resources (the "DNR") may enter into agreements setting forth the terms and conditions for the use of park improvements by the DNR and the sums to be paid by the DNR for such use.

Pursuant to this authority, the Recreation Commission issued, on April 6, 1994, \$19,285,000 aggregate principal amount of its Revenue Bonds, Series 1994 (the "Series 1994 Bonds"), to finance and refinance costs of acquisition, construction, renovation, improvement and equipping of various facilities for public parks in the State. The Commission also issued, on February 12, 1997, \$6,600,000 aggregate principal amount of its Revenue Bonds, Series 1997 (the "Series 1997 Bonds," collectively with the Series 1994 Bonds called the "Park Revenue Bonds") to finance the costs of acquisition, construction, renovation and equipping of improvements at Fort Benjamin Harrison State Park, including a golf course and related facilities. (All projects financed with Park Revenue Bonds are collectively, the "Park Projects") .As of January 1, 2001, \$24,570,000 aggregate principal amount of the Park Revenue Bonds remain outstanding.

The Park Revenue Bonds are limited obligations of the Recreation Commission, payable solely from certain revenues and funds of the Recreation Commission pledged for such payment, including the net revenues from the Park Projects. These net revenues include primarily rental payments to be received by the Recreation Commission from the DNR for the DNR's use of the Park Projects under a master use and occupancy agreement, as supplemented by a supplemental agreement for each of the Park Projects. The term of the master use and occupancy agreement is coextensive with the State's biennial budget, but is renewable for additional two-year terms. Rental payments under the master use and occupancy agreement are subject to and dependent upon appropriations by the General Assembly having been made and being available for such purpose. The Park Revenue Bonds do not constitute a debt of the State or any political subdivision thereof or a pledge of the faith and credit of the State or any political subdivision thereof within the meaning of any constitutional provision or limitation.

***Indiana Bond Bank.*** The only bonds issued by the Indiana Bond Bank which are payable from possible State appropriations are the Series 1998A Bonds issued in the principal amount of \$10,830,000 to refund the Special Program Bonds, Series 1991 A. The Bond Bank issued the Series 1991 A Bonds in the principal amount of \$11,760,000 to finance construction of the State's Animal Disease and Diagnostic Laboratory at Purdue University, West Lafayette. The essential security for the bonds is lease rentals payable under a lease between the State of Indiana, acting by and through the Department of Administration, as tenant, and The Trustees of Purdue University, as landlord. For a description of other powers and responsibilities of the Bond Bank, including its authority to issue other debt, see "STATE INDEBTEDNESS—Contingent Obligations—Indiana Bond Bank" and Table 10.

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## Debt Statement - Obligations Payable From Possible State Appropriations

Table 7 lists, by issuing agency, all long term debt that is subject to possible State appropriations through January 1, 2001.

**Table 7**  
**Schedule of Long Term Debt**  
**Obligations Payable From Possible State Appropriations**  
**(as of January 1, 2001)**

Issuer/Series	Original Par Amount	Ending Balance 6/30/00	(Redeemed)/ Issued	Ending Balance 01/01/01
State Office Building Commission				
Government Center Parking Facilities				
Series 1990A	\$ 26,669,824	\$ 10,475,690	\$ 0	\$ 10,475,690
Series 1993A	42,410,000	35,300,000	(1,965,000)	33,335,000
Subtotal	\$ 69,079,824	\$ 45,775,690	\$ (1,965,000)	\$ 43,810,690
Government Center North				
Series 1990B	\$ 77,123,542	\$ 32,492,747	\$ 0	\$ 32,492,747
Series 1993B	107,555,000	93,195,000	(3,965,000)	89,230,000
Subtotal	\$ 184,678,542	\$ 125,687,747	\$ (3,965,000)	\$ 121,722,747
Government Center South				
Series 1990C	\$ 18,063,800	\$ 7,089,520	\$ 0	\$ 7,089,520
Series 1990D	110,675,000	53,710,000	0	53,710,000
Series 1993C	28,440,000	9,500,000	(405,000)	9,095,000
Series 2000B	43,400,000	43,400,000	0	43,400,000
Subtotal	\$ 200,578,800	\$ 113,699,520	\$ (405,000)	\$ 113,294,520
Correctional Facilities				
Series 1995A	\$ 54,025,000	\$ 53,220,000	\$ (430,000)	\$ 52,790,000
Series 1995B	47,975,000	46,750,000	(1,275,000)	45,475,000
Series 1998A	93,020,000	93,020,000	0	93,020,000
Series 1999A	96,785,000	96,785,000	(2,765,000)	94,020,000
Series 2000A	44,800,000	44,800,000	0	44,800,000
Subtotal	\$ 336,605,000	\$ 334,575,000	\$ (4,470,000)	\$ 330,105,000
TOTAL SOBC	\$ 790,942,166	\$ 619,737,957	\$ (10,805,000)	\$ 608,932,957
Transportation Finance Authority				
Highway Revenue Bonds				
Series 1990A	\$ 72,498,391	\$ 47,733,392	\$ (9,721,495)	\$ 38,011,897
Series 1992A	74,035,000	39,815,000	(2,200,000)	37,615,000
Series 1993A	193,531,298	161,911,298	(9,200,000)	152,711,298
Series 1996B	27,110,000	26,440,000	(240,000)	26,200,000
Series 1998A	175,360,000	175,360,000	0	175,360,000
Series 2000A	269,535,000	0	269,535,000	269,535,000
Subtotal	\$ 812,069,689	\$ 451,259,690	\$ 248,173,505	\$ 699,433,195

Airport Facilities Bonds						
Series 1992A	\$	201,320,000	\$	57,055,000	\$ (5,015,000)	\$ 52,040,000
Series 1995A		29,720,000		28,375,000	(790,000)	27,585,000
Series 1996A		137,790,000		137,790,000	0	137,790,000
Subtotal	\$	368,830,000	\$	223,220,000	\$ (5,805,000)	\$ 217,415,000
Aviation Technology Bonds						
Series 1992A	\$	11,630,000	\$	10,020,000	\$ 0	\$ 10,020,000
Subtotal	\$	11,630,000	\$	10,020,000	\$ 0	\$ 10,020,000
TOTAL ITFA	\$	1,192,529,689	\$	684,499,690	\$ 242,368,505	\$ 926,868,195
Recreational Development Commission						
Series 1994	\$	19,285,000	\$	18,800,000	\$ (225,000)	\$ 18,575,000
Series 1997		6,600,000		6,200,000	(205,000)	5,995,000
TOTAL IRDC	\$	25,885,000	\$	25,000,000	\$ (430,000)	\$ 24,570,000
Animal Disease & Diagnostic Laboratory						
Series 1998B	\$	10,830,000	\$	9,285,000	\$ (315,000)	\$ 8,970,000
TOTAL ADDL	\$	10,830,000	\$	9,285,000	\$ (315,000)	\$ 8,970,000
TOTAL						
ALL BONDS	\$	2,020,186,855	\$	1,338,522,647	\$ 230,818,505	\$ 1,569,341,152

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Source: State Budget Agency

#### Debt Service Schedule - Obligations Payable From Possible State Appropriations

Table 8 lists, by issuing agency, all principal and interest payments payable from possible State appropriations (not including debt that has been defeased) that are due in State Fiscal Years 2001-2004 and those scheduled thereafter until the bonds are retired.

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**Table 8**  
**Scheduled Principal and Interest Payments**  
**Payable From Possible State Appropriations**

Issuer/Series	FY 01	FY 02	FY 03	FY 04	Thereafter
<b>State Office Building</b>					
Government Center Parking					
Series 1990A	468,050	1,948,050	1,948,050	1,948,050	18,661,725
Series 1993A	3,698,309	3,691,946	3,689,389	3,689,981	34,185,467
Subtotal	4,166,359	5,639,996	5,637,439	5,638,031	52,847,192
<b>Government Center North</b>					
Series 1990B	1,451,880	6,041,880	6,041,880	6,041,880	57,883,561
Series 1993B	8,615,564	8,611,016	8,603,809	8,597,976	102,514,307
Subtotal	10,067,444	14,652,896	14,645,689	14,639,856	160,397,868
<b>Government Center South</b>					
Series 1990C	317,090	1,317,090	1,317,090	1,317,090	12,629,245
Series 1990D	3,705,990	3,705,990	3,705,990	3,705,990	72,958,585
Series 1993C	879,053	875,280	875,280	878,780	10,451,530
Series 2000B <sup>(1)</sup>	2,009,782	3,265,500	8,799,000	8,686,500	36,630,000
Subtotal	6,911,915	9,163,860	14,697,360	14,588,360	132,669,360
<b>Correctional Facilities</b>					
Series 1995A	3,322,130	3,326,769	3,320,028	3,321,861	89,909,111
Series 1995B	3,862,381	3,860,058	3,858,843	3,853,508	64,934,656
Series 1998A	4,501,326	6,903,551	8,574,151	8,572,990	110,706,360
Series 1999A	7,657,038	7,867,213	7,870,431	7,869,119	124,855,518
Series 2000A <sup>(1)</sup>	2,074,613	4,200,000	4,104,000	4,102,500	61,285,500
Subtotal	21,417,488	26,157,591	27,727,453	27,719,978	451,691,145
<b>TOTAL SOBC</b>	<b>42,563,206</b>	<b>55,614,343</b>	<b>62,707,941</b>	<b>62,586,225</b>	<b>797,605,565</b>
<b>Transportation Finance</b>					
<b>Highway Revenue Bonds</b>					
Series 1990A	6,150,288	6,150,288	6,150,288	6,150,288	56,351,061
Series 1992A	4,807,510	4,800,445	2,399,380	2,399,380	58,709,130
Series 1993A	13,835,198	13,845,448	13,853,698	13,848,263	216,851,458
Series 1996B	1,592,985	1,592,080	3,989,010	3,989,708	23,727,825
Series 1998A	9,071,740	12,111,765	12,098,890	12,108,846	244,961,542
Series 2000A	7,465,312	14,766,551	17,210,301	17,097,176	523,964,885
Subtotal	42,923,033	53,266,577	55,701,567	55,593,661	1,124,565,901
<b>Airport Facilities Bonds</b>					
Series 1992A	8,432,391	8,742,756	9,064,853	9,385,525	45,930,526
Series 1995A	2,329,305	2,376,240	2,420,893	2,469,868	35,585,999
Series 1996A	7,480,470	8,204,983	8,216,608	8,219,933	189,627,191
Subtotal	18,242,166	19,323,979	19,702,354	20,075,326	271,143,716
<b>Aviation Technology Center</b>					
Series 1992A	958,455	955,375	955,945	955,000	13,402,075
Subtotal	958,455	955,375	955,945	955,000	13,402,075
<b>TOTAL ITFA</b>	<b>62,123,654</b>	<b>73,545,931</b>	<b>76,359,866</b>	<b>76,623,987</b>	<b>1,409,111,692</b>
<b>Recreational Development Commission</b>					
Series 1994	1,342,595	1,380,070	1,419,395	1,460,203	28,217,761
Series 1997	525,390	526,043	526,030	525,333	7,787,234
<b>TOTAL IRDC</b>	<b>1,867,985</b>	<b>1,906,113</b>	<b>1,945,425</b>	<b>1,985,536</b>	<b>36,004,995</b>
<b>Animal Disease &amp; Diagnostic Lab</b>					
Series 1998B	1,041,783	1,040,638	1,042,894	1,043,475	7,822,103
<b>TOTAL ADDL</b>	<b>1,041,783</b>	<b>1,040,638</b>	<b>1,042,894</b>	<b>1,043,475</b>	<b>7,822,103</b>
<b>TOTAL ALL BONDS</b>	<b>107,596,628</b>	<b>132,107,025</b>	<b>142,056,126</b>	<b>142,239,223</b>	<b>2,250,544,355</b>

Note: Excludes principal and interest on refunded bonds.

(1) Debt service on variable rate debt is determined by actual rates through January 1, 2001 and the interest rate cap of 6% for remaining years.

Source: State Budget Agency

## Debt Ratios

Historically, Indiana's debt burden has remained well below the national average and compares favorably with its regional peers. At \$258, the State's net tax-supported debt per capita ranks in the bottom quintile, approximately 40th among the states. In February 2000, the median per capita debt for all the states was about \$540 and the mean was about \$727. At 1.0%, Indiana has the lowest reported debt as a percent of personal income in the region and ranks approximately 43<sup>rd</sup> among all the states. In February 2000, the median percentage for all the states was about 2.2% and the mean was about 2.7%. Even with the issuance of new debt authorized by the General Assembly, the State expects to retain its low ranking among the states for net tax-supported debt. Governor O'Bannon has directed the creation of a comprehensive debt management plan to help insure that debt will continue to be issued and managed in a prudent manner. The ratios of outstanding debt subject to possible state appropriation to population and personal income for the past eight years are reflected in the Table 9 shown below.

**Table 9**  
**Ratios of Outstanding Debt Subject to Possible Appropriation**  
**to Population and Personal Income**

<u>Fiscal</u> <u>Year</u>	<u>Population</u>	<u>Personal</u> <u>Income</u> <sup>(1)</sup>	<u>Outstanding Debt</u> <u>Subject to Appropriation</u>	<u>Debt/Capita</u>	<u>Debt/Income</u>
1993	5,700,243	\$112,701	\$ 1,001,051,854	\$175	0.9%
1994	5,741,540	119,665	1,030,787,646	179	0.9
1995	5,787,839	125,804	1,036,962,646	179	0.8
1996	5,828,090	131,906	1,119,537,646	192	0.8
1997	5,864,105	138,415	1,116,717,640	190	0.8
1998	5,907,617	141,650	1,240,092,643	210	0.9
1999	5,942,901	146,900	1,228,372,647	207	0.8
2000	6,080,485 <sup>(2)</sup>	162,567 <sup>(3)</sup>	1,569,341,152 <sup>(4)</sup>	258	1.0

(1) Personal Income is expressed in millions of dollars.

(2) Preliminary 2000 Census

(3) 2<sup>nd</sup> quarter, 2000 estimate

(4) Debt outstanding on January 1, 2001

Source: United States Bureau of Census for population (release dated December 29, 2000), United States Department of Commerce, Bureau of Economic Analysis for personal income; and State Budget Agency for outstanding debt.

## Authorized but Unissued Debt

The 1997 General Assembly authorized the State Office Building Commission to issue additional bonds to finance: (1) a special needs facility to be converted from an existing State mental hospital near New Castle, Indiana (construction has commenced on the New Castle Correctional Facility and it is expected to be available for use and occupancy in late 2001); and (2) a new State Museum in Indianapolis. (Construction has commenced on the Museum. It is expected to be available for use and occupancy in the Summer of 2002.) The Commission is providing short-term, or construction, financing for these facilities through issuance and sale of "Hoosier Notes—a tax-exempt commercial paper program." Initially, \$100.0 million aggregate principal amount of Hoosier Notes were authorized to be issued by the Commission, beginning in February 1998. The authorization was subsequently increased to \$150.0 million in January 1999, to \$200 million in January 2001 and to \$250 million in March 2001. As of May 1, 2001, \$221.9 million of Hoosier Notes were outstanding. Since inception, the weighted average coupon for the program has been 3.586%.

The Commission refinanced (1) \$85.7 million of the Hoosier Notes used to finance construction of Phase I of the Miami Correctional Center through issuance and sale of its Facilities Revenue Bonds, Series 1999A in July 1999, and (2) \$40.45 million of Hoosier Notes used to finance construction of the Pendleton Juvenile Correctional Facility through the issuance and sale of its Facilities Revenue Bonds, Series 2000A in June, 2000. The type, amount and timing of any additional bonds to refinance additional amounts of Hoosier Notes are subject to a number

of conditions that cannot be predicted at present, including architectural and engineering work, the level of investment rates, conditions in the credit markets, costs and progress of construction and the financial condition of the State.

The 1999 General Assembly authorized the Commission to issue additional bonds to finance construction of Phase II of the Miami Correctional Facility and a replacement mental health facility in Evansville, Indiana. Phase II of the Miami Correctional Facility is expected to become available for use and occupancy in late 2001. The Commission has just started design of the Evansville facility and has not yet established a construction time line. The Commission is also providing short-term, or construction, financing for these facilities through issuance and sale Hoosier Notes.

In 1997, the General Assembly authorized the TFA to issue bonds to finance additional State highway construction projects. The TFA issued the first series of bonds in the principal amount of \$175,360,000 on July 9, 1998, and a second series in the principal amount of \$269,535,000 on November 29, 2000. Beginning in 2002, the TFA is expected to issue additional bonds in the aggregate principal amount of approximately \$300 million to finance projects designed to increase the capacity of State highways.

### **Contingent Obligations**

Certain State entities, including the Indiana Department of Transportation, Indiana Bond Bank, Indiana Recreational Development Commission and Indiana Development Finance Authority, have entered into lease agreements or issued obligations that, in certain circumstances, may include payment of State general funds. Such payments, if needed, are not mandatory and no one may compel the General Assembly to appropriate moneys to make them. The leases and other obligations of such entities do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

***Transportation Finance Authority - Toll Road Financing.*** The TFA and its predecessors have issued revenue bonds ("Toll Road Bonds") to finance and refinance the construction and improvement of the 156-mile East-West toll road (the "Toll Road") in northern Indiana, which links the Chicago Skyway and the Ohio Turnpike. To see a listing by bond series of the indebtedness of the TFA for Toll Road Financing, see "STATE INDEBTEDNESS—Debt Statement—Contingent Obligations."

The Indiana Department of Transportation has entered into a lease agreement for the Toll Road (the "Toll Road Lease") with the TFA. The Toll Road Lease is automatically renewable every two years unless terminated by written notice of one party to the other not less than six months prior to the end of a term. The TFA may also terminate the Toll Road Lease at any time upon 15 days' written notice if, in the judgment of the TFA, the Department of Transportation is not complying with the Toll Road Lease.

Pursuant to the Toll Road Lease, the operating budget of the Toll Road is controlled by the Department of Transportation, and the Department is obligated to make all necessary repairs, renewals, replacements and improvements to the Toll Road out of tolls and other revenues collected by the Department and deposited with the trustee under the Toll Road Lease. The Department is further obligated to fix and collect tolls to meet the requirements of the Toll Road Lease: (a) operating expenses; (b) rent to the TFA (for payment of debt service on Toll Road Bonds); and (c) expenses of major repairs, improvements and equipment. The base rent is subject to increase if debt service increases as a result of the issuance of additional Toll Road Bonds. Any excess revenues collected by the Department are payable to the TFA as additional rent.

In the event Toll Road revenues are insufficient in any year to meet the requirements of the Toll Road Lease, the Department of Transportation is obligated under the Toll Road Lease to take steps to remedy the insufficiency, including increasing toll rates and reducing operating expenses. If such measures are inadequate, the Department is required, within 30 days, to report the amount of the insufficiency to, and seek the approval of, the State Budget Agency for a request to the General Assembly for an appropriation to the extent of such insufficiency. To date, no request for an appropriation for payments or other requirements under the Toll Road Lease has been made. Under the Toll Road Lease, the Department is unconditionally obligated to pay the rent during each term from legally available funds, but is not obligated to pay rent for any subsequent term unless the Toll Road Lease is renewed and extended. The Department's obligation to pay rent is not limited to Toll Road Lease revenues but, to the extent that



the Department can legally obligate itself to do so, extends to other funds of, or obtainable by, the Department and legally available from time to time for expenditures in connection with the operation of the Toll Road. Nothing in the Toll Road Lease or in Indiana Code 8-9.5-8 or 8-15 creates a debt or an obligation that requires the State to make any appropriations to or for the use of the TFA or the Department.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, see "STATE INDEBTEDNESS—Obligations Payable from Possible State Appropriations—Transportation Finance Authority-Highway Financing" and "Indiana Transportation Finance Authority-Aviation Financing."

**Indiana Bond Bank.** The Indiana Bond Bank (the "Bond Bank"), a body corporate and politic, was created in 1984 pursuant to Indiana Code 5-1.5. The Bond Bank is not a State agency and is separate from the State in both its corporate and sovereign capacity. The Bond Bank has no taxing power. The purpose of the Bond Bank is to buy and sell securities and to make loans to political subdivisions of the State and other qualified entities as defined in Indiana Code 5-1.5-1-8. The Bond Bank is empowered to issue bonds or notes which are payable solely from revenues and funds that are specifically allocated for such purpose. Pursuant to Indiana Code 5-1.5-5, to assure maintenance of a debt service reserve in any reserve fund required for Bond Bank bonds or notes, the General Assembly may, but is under no obligation to, appropriate to the Bond Bank for deposit in one or more of such funds the sum that is necessary to restore that fund to its required debt service reserve. If at the end of any Fiscal Year the amount in any reserve fund exceeds the required debt service reserve, any amount representing earnings or income received on account of any money appropriated to the reserve fund that exceeds the expenses of the Bond Bank for that year may be transferred to the General Fund.

Bonds issued by the Bond Bank do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the State constitution. Particular sources are designated for the payment of and security of bonds issued by the Bond Bank.

By statute, the total amount of bonds and notes which the Bond Bank may have outstanding at any one time (except bonds or notes issued to fund or refund bonds or notes) is currently limited by statute to \$1,000.0 million plus (a) up to \$200.0 million for certain qualified entities that operate as rural electric membership corporations or as corporations engaged in the generation and transmission of electric energy and (b) up to \$30.0 million for certain qualified entities that operate as telephone cooperative corporations. However, the foregoing limitations do not apply to bonds or notes or other obligations not secured by a reserve fund that is subject to Indiana Code 5-1.5-5.

As of January 1, 2001, the Bond Bank had \$1,292,757,207 in bonds and notes outstanding, including \$196,950,000 in outstanding bonds that are eligible for reserve fund replacement, with an aggregate reserve fund requirement for such bonds of \$47,960,151. To see a listing by bond series of the outstanding Bond Bank bonds that are eligible for reserve fund replacement see "STATE INDEBTEDNESS—Debt Statement-Contingent Obligations."

As of January 1, 2001, all borrowers from the Bond Bank were current in their payments and no appropriation has been requested or required to maintain the debt service reserve funds at their required levels; however, on January 1, 1999, the Town of Claypool, Indiana (a borrower of \$328,000 aggregate principal amount of the Bond Bank's Special Program Pool, Series 1991F) failed to make payment of \$21,546.75, which payment was then made by the Bond Bank from available monies and thereafter such borrowing was restructured and the payment delinquency cured.

**Development Finance Authority.** The Indiana Development Finance Authority (the "Development Finance Authority"), a body politic and corporate, was established in 1990 under Indiana Code 4-4-11 as successor to the Indiana Employment Development Commission, Indiana Agricultural Development Corporation and Indiana Export Finance Authority. The Development Finance Authority is not a State agency, but an independent instrumentality of the State exercising essential public functions. The public purposes of the Development Finance Authority are to: (a) promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations; (b) promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects; (c) promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises; (d) prevent and remediate environmental

pollution by the promotion and development of industrial development projects; and (e) promote affordable childcare financing.

The Development Finance Authority is permitted by law to issue conduit and certain other types of revenue bonds to finance projects that serve these public purposes. Except as described below, the Development Finance Authority's revenue bonds are payable solely from revenues of the Development Finance Authority specifically pledged thereto. The bonds are not in any respect a general obligation of the Development Finance Authority or the State, nor are they payable in any manner from revenues raised by taxation. The Development Finance Authority has no power to levy taxes.

Pursuant to this authority, the Development Finance Authority has issued numerous revenue bonds. Except as described below, the revenue bonds are not payable from State appropriations. The Development Finance Authority issued on May 25, 1995, \$21,400,000 aggregate principal amount of its Taxable Economic Development Revenue Bonds, Series 1995 (Steel Dynamics, Inc. Project) (the "Steel Dynamics Bonds"), secured in part by a debt service reserve fund established exclusively for the Steel Dynamics Bonds. As of January 1, 2001, \$17,600,000 aggregate principal amount of the Steel Dynamics Bonds remain outstanding. In addition, the Development Finance Authority issued \$33,100,000 aggregate principal amount of its Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (Qualitech Steel Corporation Project) (the "Qualitech Bonds"), secured in part by a debt service reserve fund established exclusively for the Qualitech Bonds, \$28,700,000 of which revenue bonds remain outstanding as of January 1, 2001. Finally, the Development Finance Authority issued \$13,800,000 aggregate principal amount of its Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1998 (Heartland Steel, Inc. Project) (the "Heartland Steel Bonds") secured in part by a debt service reserve fund established exclusively for the Heartland Steel Bonds, \$12,300,000 of which revenue bonds remain outstanding as of January 1, 2001. To see a listing by bond series of the outstanding Development Finance Authority bonds that are eligible for reserve fund replacement see Table 10 "Schedule of Long Term Debt-Contingent Obligations" shown below.

On March 22, 1999, Qualitech Steel Corporation, the corporation whose revenues are the primary source of repayment for the Qualitech Bonds, filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. The Qualitech Bonds remain current. On or about August 26, 1999, substantially all of Qualitech Steel Corporation's assets were sold with court approval to designees of Qualitech's pre-petition secured lenders. As of January 1, 2001, the bankruptcy proceedings were not concluded, however, it is likely that, at some point in the future, the debt service reserve fund established for the Qualitech Bonds will not be fully funded and the Development Finance Authority will be required to seek an appropriation from the General Assembly to replenish such debt service reserve fund or to reimburse Bank One, Indiana, N.A. for unreimbursed draws under a letter of credit it issued to secure payment of the Qualitech Bonds. Presently the debt service reserve fund remains fully funded and the biennial budget bill includes sufficient funds to pay the Qualitech bond payments through the '01-'03 biennium. On or about January 31, 2001, Qualitech ceased operations and permanently laid off the majority of its employees.

On January 24, 2001, Heartland Steel Corporation, the corporation whose revenues are the primary source of repayment for the Heartland Steel Bonds, filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. The Heartland Steel Bonds remain current and the biennial budget bill provides \$1,000,000 in additional funding to supplement bond payments for the Heartland Steel Bonds.

The Development Finance Authority has contractually agreed that, if, after an unreimbursed transfer from the debt service reserve fund for the Steel Dynamics Bonds, the Qualitech Bonds or the Heartland Steel Bonds, as applicable, such debt service reserve fund is not fully funded, the Development Finance Authority will seek an appropriation from the General Assembly to replenish such debt service reserve fund. However, the General Assembly is under no obligation to make any appropriation to replenish any such debt service reserve fund.

### **Debt Statement - Contingent Obligations**

Table 10 lists the long term debt classified as contingent obligations that was outstanding on January 1, 2001. Debt classified as a contingent obligation is debt for which the State has agreed to replenish a debt service reserve fund or seek an appropriation from the General Assembly to provide funds to meet certain obligations. See "STATE INDEBTEDNESS—Contingent Obligations."

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**Table 10**  
**Schedule of Long Term Debt**  
**Contingent Obligations**  
**(as of January 1, 2001)**

Issuer/Series	Original Par Amount	Ending Balance 6/30/00	(Redeemed)/ Issued	Ending Balance 01/01/01
Transportation Finance Authority				
Toll Road Bonds				
Series 1985	\$ 256,970,000	\$ 26,200,000	\$ -	\$ 26,200,000
Series 1987	184,745,000	48,130,000	(1,835,000)	46,295,000
Series 1993	76,075,000	55,965,000	(8,195,000)	47,770,000
Series 1996	134,795,000	133,300,000	(590,000)	132,710,000
Subtotal	\$ 652,585,000	\$ 263,595,000	\$ (10,620,000)	\$ 252,975,000
Indiana Bond Bank				
Special Program Pool				
Series 1991C	\$ 9,360,000	\$ 7,570,000	\$ 0	\$ 7,570,000
Series 1991F	15,330,000	12,860,000	(520,000)	12,340,000
Series 1992A (hospital)	21,000,000	16,045,000	0	16,045,000
Series 1992A	9,115,000	8,195,000	(225,000)	7,970,000
Series 1992B	15,735,000	9,955,000	(420,000)	9,535,000
Series 1993A	7,975,000	6,955,000	(250,000)	6,705,000
Series 1993B	14,915,000	13,805,000	0	13,805,000
Series 1994B	8,475,000	7,530,000	(360,000)	7,170,000
Series 1995A	4,540,000	4,155,000	(150,000)	4,005,000
Series 1995B	13,280,000	12,080,000	0	12,080,000
Series 1997A	6,295,000	6,020,000	0	6,020,000
Series 1997B	22,855,000	22,855,000	0	22,855,000
Series 1997C	5,010,000	5,010,000	0	5,010,000
Series 1998A	6,485,000	6,485,000	0	6,485,000
Series 2000A	31,495,000	31,495,000	0	31,495,000
Series 2000A (refunding)	32,860,000	32,860,000	(5,000,000)	27,860,000
Subtotal	\$ 224,725,000	\$ 203,875,000	\$ (6,295,000)	\$ 196,950,000
Indiana Development Finance Authority				
Qualitech Steel	\$ 33,100,000	\$ 29,800,000	\$ (1,100,000)	\$ 28,700,000
Steel Dynamics	21,400,000	18,600,000	(1,000,000)	17,600,000
Heartland Steel	13,800,000	13,800,000	(1,500,000)	12,300,000
Subtotal	\$ 68,300,000	\$ 62,200,000	\$ (3,600,000)	\$ 58,600,000
TOTAL – ALL BONDS	\$ 945,610,000	\$ 529,670,000	\$ (21,145,000)	\$ 508,525,000

Source: State Budget Agency

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## Other Entities Issuing Debt

The following entities, although created or designated by the State, are authorities, instrumentalities, commissions, separate bodies corporate and politic, or not-for-profit corporations separate from the State. The entities may incur debt while exercising essential governmental or public functions. Any debt incurred by the entities is secured only by specific revenues and sources pledged at the time the debt is incurred and is neither direct nor indirect debt of the State. The debts do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

<u>Entity</u>	<u>Statute</u>	<u>Purpose of Debt Issuance</u>
Board for Depositories	I.C. 5-13-12 Recodified 1987	Provide guarantee for industrial development obligation or credit enhancement for Indiana enterprises
Indiana Educational Facilities Authority	I.C. 20-1263 Established 1979	Provide funds for projects to be leased to private institutions of higher learning
Indiana Health Facility Financing Authority <sup>(1)</sup>	I.C. 5-1-16 Established 1983	Provide health facilities with means for financing equipment and property acquisitions
Indiana Housing Finance Authority <sup>(2)</sup>	I.C. 5-20-1 Established 1978	Provide funds for construction or mortgage loans for federally assisted multi-family or for low and moderate income residential housing
Indiana Political Subdivision Risk Management Commission	I.C. 27-1-29 Established 1986	Provide funds to aid political subdivisions protection against liabilities
Indiana Port Commission	I.C. 8-10-1 Established 1961	Provide funds to construct, maintain and operate public ports on Lake Michigan or Ohio or Wabash Rivers
Indiana Secondary Market for Secondary Loans, Inc. <sup>(3)</sup>	I.C. 20-12-21.2 Authorized 1980	Provide funds for a secondary market for education loans
Intelnet Commission	I.C. 5-21-1 Established 1986	Provide funds for a State-wide integrated telecommunications network
Indiana State Fair Commission	I.C. 15-1.5-1 Established 1990	Provide funds for construction, repair and refurbishing of State fairgrounds
Indiana White River State Park Development Commission	I.C. 14-3-1 Established 1979	Provide funds for establishment and development of park, exposition, educational, athletic and recreational projects on the White River in Marion County

<sup>(1)</sup> Originally the Indiana Hospital Equipment Financing Authority.

<sup>(2)</sup> Authorized to issue bonds, similar to the Indiana Bond Bank, that would be eligible for General Assembly appropriations to replenish the debt service reserve funds. The Indiana Housing Finance Authority has not issued and does not currently expect to issue any such bonds.

<sup>(3)</sup> A not-for-profit corporation authorized by the General Assembly.

## STATE RETIREMENT SYSTEMS

There are four major State retirement systems: the Public Employees' Retirement Fund, the Indiana State Teachers' Retirement Fund, the State Judges' Retirement System and the State Police Fund. In addition, the State maintains and appropriates moneys to several other retirement plans. Under Indiana law, each board administering a retirement system is required to periodically make an actuarial investigation into the mortality, service and compensation or salary experience of the members of the system and their beneficiaries and make a valuation of the assets and liabilities of the retirement benefits in any year in which the retirement fund law is amended in any manner which affects the benefits payable. See "Exhibit A-1, General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 2000—Employee Retirement Systems and Plans."

In 2000, the Indiana General Assembly restructured certain governance provisions for the Public Employees' Retirement Fund and the Teachers' Retirement Fund. Each Fund is now a separate body corporate politic. The legislation was designed to give the Funds the resources necessary to most efficiently and effectively implement investment strategies and administer benefits.

### **Public Employees' Retirement Fund**

The Public Employees' Retirement Fund ("PERF") has been in existence since 1945 to provide retirement, disability and survivor benefits for most State and local government employees. With assets of more than \$8,559.1 million on June 30, 2000, PERF is the State's largest pension fund and has no unfunded liability. PERF has management responsibility for total assets of \$11,502.7 million, which includes pension assets of local government units, the Judges' Retirement System, Legislators' Retirement System, Prosecutors' Retirement System, municipal police and fire units and State conservation and excise officials. On June 30, 2000, there were 204,286 active and retired members participating in PERF from State and local government.

State employees constitute approximately 36% of the non-retired PERF membership; the remainder of the membership is composed of employees of other participating political subdivisions. The State is financially responsible for making contributions for State employee members only. Funding for PERF is included as part of the expenditures for fringe benefits by each State agency.

All State employees and all employees of participating political subdivisions in covered positions, including elected and appointed officials, are required to join PERF upon employment. The PERF benefit consists of two parts: (a) a pension formula benefit based upon years of service and final average salary and (b) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Effective July 1, 1986, the State "picked up" and pays the employee contributions for State employees to PERF as part of a wage adjustment.

Eligibility for retirement benefits is determined by age and creditable service. An employee is eligible for normal retirement at age 65 if he or she has ten or more years of creditable service under PERF. An employee may qualify for early retirement with a reduced pension if he or she is between the ages of 50 and 65 and has 15 or more years of creditable service. An employee may qualify for early retirement with full benefits at age 60 with 15 or more years of creditable service or at age 55 with the employee's age plus years of creditable service equaling 85 or more (the "Rule of 85"). Benefit determination is based on the average of the five highest annual earnings, years of service and age at retirement and the specific retirement option selected by each member.

PERF includes benefits for a member who becomes disabled while receiving pay in a PERF-covered position if the member (a) has five or more years of creditable service under PERF and (b) qualifies for Social Security disability benefits. The benefits will be computed using only the years of creditable service worked to the date of disability with no reduction for early retirement.

If a member who has 15 or more years of creditable service dies in service, his or her spouse or dependent beneficiary may be entitled to survivor benefits. If a retired member dies, the designated beneficiary may receive benefits, depending on the option selected by that member.

A member who terminates employment prior to eligibility for retirement or disability benefits is entitled to the return of his or her contributions, plus interest. A member who terminates employment prior to eligibility for retirement or disability benefits, but with ten or more years of credited service, may also elect to receive a deferred vested benefit instead of a refund.

Contributions are made to PERF by the State and local units, paying normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by the PERF Board of Trustees based on annual actuarial valuations. For 1999, 2000, and 2001 the State contribution rate was set at 5%, the lowest rate in over 10 years.

**Table 11**  
**Public Employees' Retirement Fund**  
**History of Contribution Rates**

<u>Valuation Date</u>	<u>State Contribution Rate</u>
July 1, 2000	5.0%
July 1, 1999	5.0%
July 1, 1998	5.7%
July 1, 1997	6.6%
July 1, 1996*	6.6%
July 1, 1995*	6.3%
July 1, 1994	5.6%
July 1, 1993	6.2%
June 30, 1992	6.6%
June 30, 1991	7.0%
June 30, 1990	7.3%
June 30, 1989	7.8%

\*These contribution rates reflect the normal retirement date as changed by statute to the "Rule of 85" and reflect changes in actuarial assumptions.

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Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2000.

As of July 1, 2000, the State-related portion of the PERF plan was actually overfunded by \$258.9 million. The better-than-expected funded status of the plan can be attributed to greater than expected investment gains. The plan has achieved this overfunded status even though it incorporates conservative actuarial assumptions into the valuation process.

**Table 12**  
**PERF Actuarial Assumptions**

- 7.25% Investment Return
- 5% Salary Increases
- 2% Retiree Cost-of-Living Benefit Increases
- 1983 GAM Mortality Tables
- Retirement rates based on PERF Experience Study 1991-1994
- Disability rates based on PERF Experience Study 1991-1994
- Turnover by age and service based on PERF Experience Study 1991-1994

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Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2000.

Table 13 summarizes the results of the actuarial valuations of the State-related portion of PERF on June 30, 1999 and June 30, 2000.

**Table 13**  
**Indiana State Public Employees' Retirement Fund**

	<u>June 30, 1999</u>	<u>June 30, 2000</u>
Normal Cost	\$ 73,931,188	\$ 80,217,996
Accrued Liability (Non-retired) <sup>(1)</sup>	1,583,485,563	1,701,091,436
Unfunded (Overfunded) Accrued Liability (Non-retired) <sup>(1)</sup>	(245,098,880)	(258,926,582)
Actuarial Present Value of All Accumulated Plan Benefits	911,681,909	988,638,974
Present Value of Vested Benefits	760,263,989	831,616,226
Non-retired Participant Assets <sup>(2)</sup>	1,828,584,443	1,960,018,018

Notes: <sup>(1)</sup> There is no Unfunded Accrued Liability for retired members' benefits.

<sup>(2)</sup> Actuarial Value.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, June 30, 1999 and June 30, 2000.

In November 1996, a referendum amending the State constitution to permit public pension funds to invest in equities was passed. In May 1997, after enactment of House Enrolled Act 1036, the Board of Trustees of PERF began shifting the asset allocation of its investment portfolio. The shifting was scheduled to take place over a projected three-year transition period to a target asset allocation of 60% equities and 40% fixed income securities. After an updated asset/liability study of the Plan in early 2000, the Board of Trustees approved a new target asset allocation of 55% domestic equities, 10% international equities, 32% fixed income securities and 3% real estate. It is expected that the new targeted asset allocation will produce a more diversified, safer and higher yielding investment portfolio in the long run. As of June 30, 2000, approximately 60% of the employer reserves under PERF's control have been shifted to domestic equity investments.

#### **State Teachers' Retirement Fund**

The Indiana State Teachers' Retirement Fund ("TRF") pays retirement benefits to public school teachers who reach a specific age or meet other eligibility qualifications. On June 30, 2000, TRF had 110,748 active and retired participants. Members of TRF receive benefits similar to those received by PERF members as described above and are also subject to the "Rule of 85" for eligibility purposes.

Moneys to pay retirement benefits are provided from State appropriations and separate contributions by the teachers to an Annuity Savings Account. Until July 1, 1995, the State portion of benefits was funded on a "pay as you go" cash basis. As a result, there accumulated a substantial unfunded accrued liability in the "old plan" as shown in Table 14 below.

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**Table 14**  
**Indiana State Teachers' Retirement Fund**

	<u>June 30, 1999</u>	
Accrued Liability	<u>Old Plan</u>	<u>New Plan*</u>
Retired	\$ 3,659,118,423	\$ 3,903,234
Non-retired	<u>8,513,383,027</u>	<u>494,519,759</u>
Total	12,172,501,450	498,422,993
Unfunded Accrued Liability		
Retired	\$ 1,428,041,751	\$ -
Non-retired	<u>6,013,793,279</u>	<u>258,369,079</u>
Total	\$ 7,441,835,030	\$ 258,369,079 **
	<u>June 30, 2000</u>	
Accrued Liability	<u>Old Plan</u>	<u>New Plan*</u>
Retired	\$ 3,890,895,561	\$ 8,679,114
Non-retired	<u>8,518,379,657</u>	<u>697,111,111</u>
Total	12,409,275,218	705,790,225
Unfunded Accrued Liability		
Retired	\$ 1,380,424,751	\$ -
Non-retired	<u>5,818,961,181</u>	<u>337,632,726</u>
Total	\$ 7,199,385,932	\$ 337,632,726 **

\*The new plan is actuarially funded by local school districts.

\*\*Total Unfunded Accrued Liability of the new plan is primarily attributable to the transfer of members (and their accrued liabilities) from the Pre-1995 Plan.

Source: Actuarial Valuation Report, Teachers' Retirement Fund, June 30, 1999 and June 30, 2000.

To aggressively address TRF's unfunded liability, the State:

1. Capped the growth of the benefit obligations by creating a new, actuarially sound plan for all teachers hired or transferred after July 1, 1995. The "new" plan is funded by local school districts on a current basis using a level percent of payroll approach.
2. Created a new Pension Stabilization Fund dedicated to limiting growth in future General Fund appropriations for the pre-July 1995 plan to no more than normal growth in General Fund revenues. The Pension Stabilization Fund has been funded through the following transfers and appropriations:

<u>Amount</u>	<u>Source</u>	<u>Time</u>	<u>Frequency</u>
\$439.7 million	Pension reserves	1995-1997 Biennium	One-time
\$250.0 million	General Fund appropriation	1995-1997 Biennium	One-time
\$150.0 million	General Fund appropriation	1997-1999 Biennium	One-time
\$250.0 million	General Fund appropriation	1999-2001 Biennium	One-time
\$30.0 million	Gaming Revenue appropriation	Annually, beginning FY 1996	Ongoing

The Teachers' Retirement Fund reports that the balance in the Pension Stabilization Fund on March 31, 2001 was approximately \$1.753 billion (unaudited) from all sources.

3. Changed the State constitution to allow investment in equities, thereby increasing earnings estimates for plan assets. In August 1997, TRF's trustees adopted a new asset allocation plan, establishing a long-term goal of investing 52.0% of plan assets in equity investments. As of June 30, 2000, 46% of the Fund's employer controlled assets were invested in equities. The independent, non-partisan, Indiana Fiscal Policy Institute, estimated that investing in equities had resulted in an additional \$648 million in earnings to the Plan as of December 31, 1999.

4. Adopted increased employer contribution rates for the new plan based on recommendations made by the Fund's actuaries in the June 30, 1999 Actuarial Valuation Report. At the November 30, 2000 TRF Board meeting, the trustees increased the employer contribution rate from 8.5% to 9% to address the growing unfunded accrued liability in the new plan. The trustees also established a 40 year "closed" amortization period for the new plan's unfunded actuarial accrued liability. The actuaries determined that the existence of an unfunded accrued liability in the new plan is primarily attributed to the transfer of members and their accrued liabilities from the old plan.

The substantial changes to the old and new plans were designed to limit the growth in the annual State General Fund appropriation necessary to meet current obligations of such plans. An independent analysis of the plans done in December 1999 by The Indiana Fiscal Policy Institute, reports that the growth rate for future General Fund appropriations has been reduced from a projected growth rate of 9% per year to 3.1% per year following the restructuring. Another example of how the changes are working is highlighted in Table 15, with the growth in the unfunded liability decreasing dramatically to less than 2% a year from a volatile range of 5% to over 20% prior to 1995, and finally in 2000 achieving an actual decrease.

**Table 15**  
**Growth of Unfunded Liability in Teachers' Retirement Fund Closed, Pre-1995 Plan**

June 30	Computed Actuarial Accrued Liability	Valuation Assets (\$ in Millions)	Unfunded Actuarial Accrued Liability (UAAL)	% Change from previous Year*
1975	\$1.570	\$ 312	\$1.258	
1977	2.145	375	1.770	20.3%
1979	2.582	466	2.116	9.8%
1980	2.843	539	2.304	8.9%
1981	2.957	601	2.356	2.3%
1983	3.338	765	2.573	4.6%
1985	4.023	1.073	2.950	7.3%
1987	4.837	1.401	3.436	8.2%
1989	6.205	1.707	4.498	15.5%
1991	7.182	2.161	5.021	5.8%
1992	7.949	2.376	5.573	11.0%
1993	8.508	2.592	5.916	6.2%
1994	9.087	2.809	6.278	6.1%
1995	9.675	2.984	6.691	6.6%
1996	10.283	3.242	7.041	5.2%
1997	10.868	3.678	7.190	2.1%
1998	11.481	4.130	7.351	2.2%
1999	12.17	4.731	7.442	1.2%
2000	12.409	5.210	7.199	(3.3%)

\*Where a valuation year is skipped, the percentage change is divided by two to approximate the change over a two-year period.

Source: Actuarial Valuation Report, Teachers' Retirement Fund, June 30, 2000.

The actuaries acknowledge that the assumptions used to calculate the unfunded liability are more conservative than many public pension plans. Because the liability is calculated using these various assumptions, any changes to those assumptions could substantially impact the amount of the unfunded liability

**Table 16**  
**TRF Actuarial Assumptions**

- 7.5% Investment Return
- 5.5% Salary Increases plus an additional Merit and/or Seniority increase ranging from 1.5% to 3% for those members with 5 to 40 years of service.
- 1983 GAM Mortality Tables
- Retirement rates based on TRF Experience Study 1991-1996\*
- Disability rates based on TRF Experience Study 1991-1996\*
- Turnover by age and service based on TRF Experience Study 1991-1996\*

\*A new TRF Experience Study must be completed every 5 years and is due to be completed in 2001.

Source: Actuarial Valuation Report, Teachers' Retirement Fund, June 30, 2000.

### **Indiana Judges' Retirement System**

The Indiana Judges' Retirement System ("JRS") consists of two benefit plans that pay pensions, disability benefits and survivor benefits to judges. Benefits under each plan include retirement, disability and survivor provisions, all of which are tied to salaries and years of service.

Moneys to pay benefits are derived primarily from an appropriation from the State's General Fund, from court fees and from contributions by the judges equal to 6.0% of their salaries. JRS has historically not been funded by the State on an actuarial basis.

Table 17 summarizes the results of the actuarial valuation of JRS on July 1, 1998, and July 1, 1999.

**Table 17**  
**Indiana Judges' Retirement System**

	<u>July 1, 1999</u>	<u>July 1, 2000</u>
Normal Cost <sup>(1)</sup>	\$ 4,894,302	\$ 4,627,745
Accrued Liability	176,301,145	182,447,802
Unfunded Accrued Liability	85,228,571	78,715,197
Valuation Assets <sup>(2)</sup>	\$ 91,072,574	\$ 103,732,605
Number of Members		
Active and Inactive	341	336
Terminated and Vested	18	17
Retired	<u>221</u>	<u>228</u>
Total	580	581

<sup>(1)</sup> Although normal cost is calculated by the actuaries, JRS is not funded on an actuarial basis. This amount represents the gross normal cost. Anticipated employee contributions of approximately \$1.9 million in 1999 and \$1.8 million in 2000 leave net employer normal cost of approximately \$4.6 million in 2000.

<sup>(2)</sup> Actuarial Value.

Source: Actuarial Valuation, State of Indiana Judges' Retirement System, July 1, 1999 and 2000.

## **State Police Pension Trust**

The State Police Pension Trust consists of two structures that provide retirement benefits to State police officers. The State makes contributions to the State Police Pension Trust from appropriations of General Fund and Motor Vehicle Highway Fund moneys. At present, members contribute and may borrow funds in an amount up to their contribution, subject to State Police Pension Advisory Board policies. Retirement benefits may not exceed one-half of either the member's highest salary in 36 consecutive months or a third year trooper's pay (depending upon the structure in which the member belongs), plus additions tied to years of service. Survivor and disability benefits may not exceed the basic pension amount.

The State Police Pension Trust is funded on an actuarial basis. The State Treasurer is custodian for such trust. Certain financial information about the State Police Pension Trust is also included in Exhibit A-1, General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 1999.

## **Other State Plans**

The State appropriates moneys to several other retirement plans.

The State maintains an Excise Police and Conservation Enforcement Officers' Retirement Plan. According to the actuarial valuation of the plan, as of July 1, 2000, the plan had a total annual cost (net of employee contributions and including amortization of the unfunded actuarial liability) of \$1,717,593 and an unfunded actuarial liability of \$11,903,897.

The PERF Board of Trustees administers a local police officers' and firefighters' pension and disability fund for local police officers and firefighters hired after April 30, 1977. Benefits for the members of this plan have been funded on an actuarial basis through contributions from cities and towns and from plan members.

The PERF Board of Trustees also administers a pension relief fund for those local police officers and firefighters hired before May 1, 1977. Benefits for the members of this plan have been funded on a "pay-as-you-go" basis, under which benefits are paid from current revenues provided by cities and towns and by plan members' contributions. Cities and towns receive pension relief funds from the State to reimburse them for a portion of benefit expenditures. To provide such pension relief, the State has dedicated a portion of the State's cigarette tax revenue, liquor tax revenue and certain surplus Hoosier Lottery and gaming revenues. In addition to those funding sources, the State authorized additional appropriations of \$50.0 million during 1996 and \$25.0 million each year of the 1997-1999 biennial budget. In 1999, the State dedicated another \$20 million per year from the lottery proceeds (beyond the existing \$10 million per year) to the pension relief fund. For the 2000 Calendar Year, \$76.652 million was expended from the State's pension relief fund, and on December 31, 1999, the State's pension relief fund had a balance of \$498.811million.

In 1989, the General Assembly established a legislators' retirement system consisting of a defined benefit plan and a defined contribution plan. Each of the plans is to be administered by the PERF Board. According to the actuarial valuation of the legislators' defined benefit plan, as of July 1, 2000, the plan had a total annual cost of \$177,559, a cost per eligible active participant of \$1,492 and an unfunded actuarial liability of \$896,370.

The 1989 General Assembly also established a prosecuting attorneys' retirement fund, which is administered by the PERF Board. According to the actuarial valuation of the prosecuting attorneys' retirement fund, as of July 1, 2000, the fund had a total annual cost (net of employee contributions and including amortization of the unfunded actuarial liability) of \$375,145 and an unfunded actuarial liability of \$4,161,682.

## **Local Plans**

Approximately 200 additional local governmental pension funds in the State do not receive direct contributions from the State. Although the State has set certain standards for some local pension funds, localities and members are solely responsible for contributions to the funds.

## ECONOMIC AND DEMOGRAPHIC INFORMATION

### General

Indiana's economy continues to grow in size and diversity. With an estimated 1998 Gross State Product of more than \$174.4 billion, Indiana's economy ranks as the 15<sup>th</sup> largest in the country in terms of the value of goods and services produced. After trailing the national growth rate during the 1980's, Indiana's economy has grown significantly faster than the nation during the 1990's, with a growth rate of 57.2% compared to 53.2% for the U.S. From 1990 to 1998, Indiana's contribution to the national Gross Domestic Product increased by \$63.4 billion, rising from 1.9% to 2.0% of total output. The State ranks in the top five nationally for producing items as diverse as pharmaceuticals, surgical supplies, aircraft engines and parts, compact discs, musical instruments, truck and bus bodies, electronic resistors and steel.

In 1999, Indiana ranked 36<sup>th</sup> nationally with per capita income of \$26,143, or 91.6% of the U.S. average. This represents an improvement from 1990, when Indiana's per capita income was 90% of the national average. Since 1990, Indiana's annual average growth rate for per capita income of 4.6% exceeded the national average of 4.4%. During the first part of the decade, median income fell in Indiana and across the U.S. However, since 1994 Indiana's household income has risen sharply, growing 13% faster than the nation's. In 1999, Indiana's median household income of \$40,769 exceeded the national average of \$40,280.

Between 1988 and 2000, Indiana experienced strong gains in non-farm employment, adding 614,800 net new jobs, for a growth rate of 25.7%. Since 1995, employment growth has slowed to 4.2% annually, dropping below the national growth rate of 8.2%. This may be a reflection of tight labor markets as Indiana's unemployment rate has fallen significantly below the nation's, ranging from 69% to 82% of the U.S. average. In 2000, Indiana's average unemployment rate of 3.2 % was again below the national average of 4.0%

From 1988 to 2000, Indiana has witnessed a significant shift in the distribution of employment between sectors. Employment in the service sector increased by 57.1%, followed by a 42.8% gain in construction and a 25.0% increase in wholesale and retail trade. During this period, the number of manufacturing jobs also increased by 8.1%. However, manufacturing jobs declined from a 26.6% share of total non-farm employment to a 23.3% share. The service sector increased from 20% to 25.3%, and is now the largest single sector of employment in Indiana. The diversity of the workforce is reflected in the fact that Indiana's top five employment sectors comprise just 27% of the workforce, with health services the largest segment of private employment.

Indiana is the 15<sup>th</sup> largest exporting state in the nation. Since 1988, exports in Indiana have outperformed the nation, increasing by over 247%, compared to 150% for the nation as a whole. In 2000, Indiana experienced export growth in excess of 19.2% while exports for the United States increased by about 12.6%. A large increase in exports to Mexico and a return of exports to Asian markets contributed to Indiana's 2000 export increase. In 2000, Indiana experienced another record breaking year with the State's exports reaching an all time high of \$16.5 billion.

Indiana benefits from proximity to major markets and population centers — both national and international. Through Indiana's three ports, businesses can access markets and population centers in the north, through Lake Michigan and the Great Lakes-St. Lawrence Seaway; and to the south, through the Ohio and Mississippi rivers. With 11,300 miles of State highways and 1,171 miles of interstate highways, Indiana has more interstate highways passing through it than any other state. Indiana is within a day's drive of two-thirds of the population of the United States.

The cost of living in Indiana is relatively low. The cost of living index for all of Indiana's major cities has consistently been below the national average of 100. Indiana ranks favorably among the states in housing affordability and percent of home ownership. Energy costs are comparatively low in Indiana. Utility rates for all industrial customers are about 11% lower than the national average and residential energy bills are about 14% lower than the national average.

Table 18 compares changes in employment, population and personal income between Indiana and the United States since 1950.

<b>Table 18</b>						
<b>Summary Comparison: Indiana and the U.S.</b>						
	<b>1950</b>	<b>1960</b>	<b>1970</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>
<b>Employment <sup>(1)</sup></b>						
Indiana	1,272	1,431	1,849	2,130	2,522	2,968
% Change	--	12.5%	29.2%	15.2%	18.4%	17.7%
U.S.	45,197	54,189	70,880	90,406	109,419	128,615
% Change	--	19.9%	30.8%	27.6%	21.0%	17.5%
<b>Population <sup>(2)</sup></b>						
Indiana	3,934	4,662	5,195	5,490	5,544	6,080
% Change	--	18.5%	11.4%	5.7%	1.0%	9.7%
U.S.	151,326	179,323	203,302	226,546	248,710	281,422
% Change	--	18.5%	13.4%	11.4%	9.8%	13.2%
<b>Personal Income <sup>(3)</sup> 1999</b>						
Indiana	\$1,510	\$2,209	\$3,810	\$9,449	\$17,625	\$26,143
% Change	--	46.3%	72.5%	148.0%	86.5%	48.3%
U.S.	\$1,492	\$2,276	\$4,095	\$10,183	\$19,584	\$28,542
% Change	--	52.6%	79.9%	146.7%	92.3%	45.7%

(1) In thousands. Non-agricultural payroll employment only. See Table 25.

(2) In thousands. With the exception of 1996, reflects the results of the census as of April 1 of each year. 1999 Figures are preliminary release dated April 2000.

(3) Growth measured by current dollars per capita. See Table 22. Revised figures released September 12, 2000 by Bureau of Economic Analysis.

Source: U.S Census Bureau; U.S. Department of Labor, Bureau of Labor Statistics and Bureau of Economic Analysis.

## Population

Indiana is the 14th most populous state in the United States. After leveling off during the 1980s, the pace of Indiana's population growth has increased in recent years. Numbers from the 2000 Census place Indiana's population at just over 6 million people, an increase of 9.7% from the 1990 Census. Indiana's population increased not only in relative terms, but its population increase of 536,326 persons during the 90's, was the 18<sup>th</sup> largest population increase in absolute terms. During the decade, Indiana's rate of growth outpaced all other mid-western states by a significant margin.

Throughout the decade, Indiana has benefited from net in-migration; meaning, more people are entering the State than leaving it, reversing an out-migration trend that occurred in the 1980s. Of Indiana's neighboring states, only Kentucky has posted net positive population migration in each of the years 1991 through 1999.

<b>Table 19</b>					
<b>Net Population Migration (In thousands)</b>					
Year	Indiana	Illinois	Michigan	Ohio	Kentucky
1991	11	-28	1	-4	3
1992	12	-7	9	7	19
1993	19	-12	-2	-2	24
1994	12	-18	2	-13	16
1995	16	-24	22	-13	16
1996	10	-26	27	-17	11
1997	6	-25	-6	-23	11
1998	4	-23	-13	-30	10
1999	4	-18	-3	-26	10
1990-99	111	-175	-99	-113	113

Source: U.S. Census Bureau. 1990-1999 total based on revised figures released in 2000.

The capitol and largest city in the state is Indianapolis. Other major cities include Fort Wayne, Evansville, Gary and South Bend. Indiana has all or portions of 12 metropolitan statistical areas ("MSA") and one primary MSA situated within its borders. From 1990 to 1999, population growth within the Indianapolis MSA increased 11.3%, making it the second fastest growing major metropolitan area in the Midwest, surpassing the nation's growth. All but one of Indiana's other metropolitan areas showed increases in population for the decade, with the Elkhart-Goshen area leading the way at 11.8%, while the Muncie region's population decreased 3.5%.

<b>Table 20</b>			
<b>Population of Indiana Cities and MSAs</b>			
City	Population Estimates (1999)	MSA	Population Estimates (1999)
Indianapolis	749,000	Indianapolis MSA <sup>(1)</sup>	1,536,700
Fort Wayne*	197,000	Fort Wayne MSA <sup>(2)</sup>	484,300
Evansville	122,000	Evansville-Henderson MSA <sup>(3)</sup>	291,200
Gary*	110,000	Gary Primary MSA <sup>(4)</sup>	628,400
South Bend	99,000	South Bend MSA <sup>(5)</sup>	258,500

(1) Marion, Boone, Hamilton, Madison (including the City of Anderson), Hendricks, Hancock, Morgan, Johnson and Shelby counties. The Indianapolis MSA is adjacent to the Lafayette (including Purdue University), Kokomo, Muncie (including Ball State University) and Bloomington (including Indiana University) MSAs.

(2) Allen, DeKalb, Whitley, Huntington, Wells and Adams counties.

(3) Posey, Vanderburgh (including University of Southern Indiana) and Warrick counties, Indiana, and Henderson County, Kentucky.

(4) Lake and Porter counties, Indiana; part of the Chicago-Gary-Kenosha, Illinois-Indiana-Wisconsin CMSA.

(5) St. Joseph County, Indiana (including University of Notre Dame); adjacent to Elkhart-Goshen MSA, Elkhart County, Indiana.

\* Fort Wayne and Gary submitted successful challenges to the Census Bureau's estimates – the numbers here reflect new official estimates for those cities as of January 2000.

Source: U.S. Census Bureau and the Indiana Business Research Center at the Indiana University Kelley School of Business.

As reflected in Table 21 and 21a, the State's demographic profile closely matches the nation. Changes in the Indiana demographic profile since 1990 also match national trends, including a decline in the portion of the population between eighteen and twenty-four and an increase in the portion of the "aging baby boomer" (age 45-64) population. Interestingly, Indiana has seen a nominal decrease in the size of its "senior citizen" population. Unlike the nation, Indiana's median age has become younger as a greater proportion of young people are added to the population.

<b>Table 21</b>				
<b>Demographic Profile</b>				
Age (Years)	Indiana		United States	
	1990	1999	1990	1999
Under 5	7.16	6.96	7.56	6.95
5-17	18.70	18.77	18.17	18.80
18-24	11.00	9.70	10.76	9.54
25-44	31.52	30.07	32.44	30.35
45-64	19.08	22.00	18.55	21.71
65 and older	12.55	12.50	12.52	12.67
Median Age	35.4	33.0	32.8	35.5

Source: U.S. Census Bureau and the Indiana University Kelley School of Business, Indiana Business Research Center

<b>Table 21a</b>				
<b>Projected Population by Age 2000 to 2010 (in thousands)</b>				
Age (Years)	Indiana		United States	
	2000	2010	2000	2010
Under 18	1,518	1,499	70,782	72,510
Percent	25.1	23.7	25.8	24.4
18 to 44	2,396	2,270	108,151	106,951
Percent	39.6	35.9	39.4	35.9
45 to 64	1,368	1,697	60,991	78,847
Percent	22.6	26.9	22.2	26.5
65 plus	763	852	34,710	39,408
Percent	12.6	13.5	12.6	13.2
Total	6,045	6,318	274,634	297,716

Source: Indiana Business Research Center, Indiana University Kelley School of Business and the U.S. Census Bureau.

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## Income

**Personal Income.** In 1999, Indiana's per capita personal income reached \$26,143, increasing 3.8% over 1998. Over the past ten years, Indiana's personal income has grown at an average annual rate of 4.6%, exceeding the national average rate of 4.4%.

Table 22				
Growth in Per Capita Personal Income				
	Indiana	U.S.	Indiana	U.S.
1989	16,770	18,566		
1990	17,625	19,584	5.1	5.5
1991	18,055	20,089	2.4	2.6
1992	19,629	21,082	6.7	4.9
1993	20,112	21,718	4.4	3.0
1994	21,153	22,581	5.2	4.0
1995	21,845	23,562	3.3	4.3
1996	22,775	24,651	4.3	4.6
1997	23,748	25,874	4.3	5.0
1998	25,182	27,322	6.0	5.6
1999	26,143	28,542	3.8	4.5
Annual Average Growth			4.6%	4.4%

Source: U.S. Department of Commerce, Bureau of Economic Analysis. All numbers for 1989-1998 are revised. Revision and 1999 numbers released September 2000.

**Household Income.** Indiana's median household income has grown faster than the U.S. and now exceeds the national median. During the early 1990's household income declined in Indiana and across the U.S. After bottoming out in 1994, Indiana's household income has increased 27.6% to \$40,769 in 1999 versus 13.9% growth over the same period for the U.S. Indiana is clearly a middle-income state. 70% of Indiana families earn incomes in the three middle quintiles, versus 60% for the U.S. Household income reflects, in addition to personal income, other sources of wealth such as social security, disability benefits, pensions, interest, dividend, trust, and rent. Household income may also reflect multiple wage earners contributing to family income.

Table 23				
Growth in Median Household Income 2-yr average				
	Indiana	U.S.	Indiana	U.S.
1989	35,136	37,755		
1990	33,813	37,670	-3.8%	-0.2%
1991	33,001	36,699	-2.4	-2.6
1992	32,783	35,824	-0.6	-2.4
1993	33,198	35,417	1.3	-1.1
1994	31,945	35,364	-3.8	-0.2
1995	33,174	35,966	3.9	1.7
1996	36,110	36,659	8.9	1.9
1997	38,004	37,227	5.3	1.6
1998	39,613	38,233	4.2	2.7
1999	40,769	40,280	2.9	5.4

Source: U.S. Census Bureau, Current Population Survey, March 1998, 1999, 2000.

**Poverty.** Indiana has the third lowest poverty rate in the nation, with only 8.3% of the state living below the poverty level in 1999. This represents a significant change from 1990 when 12.3% of Indiana residents lived in poverty, and a divergence from national trends, where poverty has remained consistent at around 13% of the population.

<b>Table 24</b>		
<b>Poverty Rates for Selected States – 1997-1999 3-Year Average</b>		
State	Poverty Rate	Rank (Lowest to Highest)
Maryland	7.6	1
Utah	7.9	2
Indiana	8.3	3
Wisconsin	8.5	4
Michigan	10.3	16
Illinois	10.4	17
Ohio	11.4	25
Kentucky	13.8	37
United States	12.6	--

Source: U.S. Census Bureau, March 1998, 1999, 2000 *Current Population Surveys*.

### Employment by Sector

Indiana experienced strong gains in non-farm employment between 1988 and 2000, adding 614,800 net new jobs, a growth rate of 25.7%. During this period, employment has shifted between sectors, reflecting the fundamental changes taking place in the state's economy. As of March 2001, service sector employment represented 25.3% of all non-farm employment, nearly 3% more than the 22.4% of jobs held by the manufacturing sector. The top five industries within these sectors comprise 27% of the total workforce.

<b>Table 25</b>							
<b>Annual Non-Farm Employment (in thousands)</b>							
	1988	% of Total	1999	% of Total	Growth 1988-99	Sept. 2000	% of Total
Wholesale and Retail Trade	568.2	23.7%	702.2	24.0%	23.6%	705.5	23.3%
Manufacturing	636.5	26.6	690.0	23.4	8.4%	691.6	22.9
Services	478.3	20.0	728.7	24.3	52.4%	754.6	25.0
Government	354.5	14.8	403.0	13.7	13.7%	419.7	13.9
Transportation and Public Utilities	123.9	5.2	147.1	4.9	18.7%	147.0	4.9
Finance, Insurance, Real Estate	118.6	5.0	142.6	4.8	20.2%	144.0	4.8
Construction	107.3	4.3	147.9	5.0	37.8%	154.6	5.1
Mining	8.2	0.3	6.8	0.2	-17.1%	6.2	0.2
Total	2,395.5		2,968.3		23.9%	3,023.2	

Note: Totals may not add as a result of rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics. Indiana Department of Workforce Development.

### Unemployment

Indiana has maintained lower annual unemployment rates than the nation since 1988. Although unemployment rates have fallen for both Indiana and the nation since 1992, Indiana has experienced much steeper declines. In 2000, Indiana's average rate of 3.2 % was again below the national average of 4.0%, and only two Indiana MSAs and 25 of its 92 counties had unemployment rates higher than the national average.

<b>Table 26</b>			
<b>Unemployment Rate</b> (annual averages of monthly data)			
Year	Indiana	U.S.	Indiana as % of U.S.
1989	4.7	5.3	88.7
1990	5.3	5.6	94.6
1991	6.0	6.8	88.2
1992	6.6	7.5	88.0
1993	5.4	6.9	78.3
1994	4.9	6.1	80.3
1995	4.6	5.6	82.1
1996	4.1	5.4	75.9
1997	3.5	4.9	71.4
1998	3.1	4.5	68.9
1999	3.0	4.2	71.4
2000	3.2	4.0	80.0

Source: U.S. Department of Labor, Bureau of Labor Statistics.

### Industry Diversity

Over the course of the past decade, investment and expansion in certain high-wage industrial sectors have occurred in Indiana, while declining elsewhere. Several major industrial sectors such as steel, auto, and plastics have a major presence in the state and manufacturing employment in general has remained stable. Many industry analysts and economists often refer to Indiana's economy as one that is over reliant on one or two industrial sectors. However, it should be noted that Indiana's large industrial sector is not characterized by one or two predominant industries, but is notable for its industrial diversity. Indiana is a national leader in products as diverse as surgical supplies, potato chips, furniture, transistors, glass containers, band instruments, books, etc. The following table looks at the largest sectors by employment. Of the fifteen sectors listed below, only three are manufacturing, with most falling under services and trade.

<b>Table 27</b>		
<b>Industry Diversity 1999</b>		
Sector	Indiana Employment	Sector Share of Total Employment
Health Services*	260,030	8.9%
Eating and Drinking Places	204,851	7.0%
Educational Services*	197,981	6.8%
Motor Vehicles & Equipment	103,033	3.5%
Government (General)	74,885	2.6%
Department Stores	70,935	2.4%
Grocery Stores	61,466	2.1%
Trucking & Courier Services	59,138	2.0%
Plastic Products	39,974	1.4%
Amusement & Recreation	34,770	1.2%
Miscellaneous Business Services	34,494	1.2%
Steel Mills	33,043	1.1%
Commercial Banks	28,506	1.0%

\*Note: all categories are three-digit SIC Code Classification except Health and Education Services which were combined into their two-digit codes.

Source: Bureau of Labor Statistics, Indiana Department of Workforce Development, Indiana Employment Review

## Largest Employers

Table 28 lists the one hundred largest public and private employers in Indiana as of June 2000.

<b>Table 28</b>			
<b>100 Largest Public and Private Employers in Indiana</b>			
<b>Company</b>	<b>Indiana FTE Employees</b>	<b>Company</b>	<b>Indiana FTE Employees</b>
Kroger Co.	24,000	United Airlines	3,400
Wal-Mart	22,000	Walgreens Drug Stores	3,400
McDonald's	18,000	Federal Express	3,375
Delphi Automotive	17,000	United Technologies Corp.	3,350
General Motors	13,500	CNB Bankshares	3,300
Daimler-Chrysler Corp.	12,800	Coachman Industries	3,300
Eli Lilly and Co.	12,410	Subway	3,300
K-mart	12,000	Wabash National Corp.	3,300
Clarian Health Partners	10,000	Bob Evans Restaurants	3,200
Dana Corp.	9,300	Lincoln National Corp.	3,200
Marsh Supermarkets	8,900	SuperValu	3,200
Ispat Inland Inc.	8,300	Subaru Isuzu Automotive	3,160
Bank One, Indiana	8,000	Lear corp.	3,100
United States Steel Co.	8,000	Anthem	3,000
Visteon Automotive Systems	7,800	Applebees	3,000
Burger King	7,200	Hillenbrand Industries	3,000
General Electric Co.	7,100	KFC	3,000
Pizza Hut	7,050	Papa Johns Pizza	3,000
Cummins Engine Co.	7,000	Guide Corp	2,940
Ameritech Indiana	6,700	Whirlpool Corp.	2,900
Central Indiana Health System	6,500	White Castle	2,825
Kimball International Inc.	5,865	Aristokraft Inc.	2,800
CVS Drugs	6,050	Federal Mogul Corp.	2,800
Bethlehem Steel Corp.	6,000	Raytheon Co.	2,600
Meijer inc.	6,050	Thompson Consumer Electronics	2,530
NiSource Inc.	5,300	Fairmont Homes	2,500
Dairy Queen	5,200	Marriott	2,500
Wendy's	5,150	National City Bank	2,500
Rolls Royce Allison	5,000	USA Group	2,500
Taco Bell	5,000	Toyota Motor Co.	2,475
Hardees	4,800	Amtran	2,400
Sony Electronics	4,681	Bayer Corp.	2,350
Arby's RTM Mid-America	4,550	Tomkins Industries	2,350
Quorum	4,400	Brylane LP	2,300
Alcoa, Inc.	4,300	Frito-Lay Inc.	2,300
Bristol-Myers Squibb Co.	4,300	Goodwill Industries	2,300
Target	4,300	ITT Defense & Electronics	2,300
Sears & Roebuck	4,200	AT&T	2,200
Sony Electronics	4,150	Central Newspapers Inc.	2,200
Arvin Industries	4,100	Fleetwood Enterprises Inc	2,200
Cinergy/PSI	4,000	Lowe's	2,200
LTV Steel	4,000	Monaco Coach	2,200
Indiana Michigan Power	3,800	Dura Automotive	2,100
RR Donnelley & Sons	3,800	Allied Signal	2,050
United Parcel Service	3,740	Caesar's World Casino	2,000
Conseco	3,600	Hyatt Grand Victoria Casino	2,000
Consolidated Products	3,600	Smurfit Stone Container	2,000
Navistar International	3,500	Franklin Electric Co.	1,950
Norfolk Southern corp.	3,500	IPALCO	1,940
GTE North, Indiana	3,400	Burlington Motor Carriers	1,930

Source: Indiana Chamber of Commerce

## Gross State Product

With an estimated 1998 Gross State Product of more than \$174.4 billion, Indiana's economy ranks as the 15th largest in the country in terms of the value of goods and services produced. After trailing the national growth rate during the 1980's, Indiana's economy has grown at a significantly faster pace than the nation during the 1990's, increasing its weight as a percent of the national economy.

<b>Table 29</b>					
<b>Total Gross State and Domestic Product</b>					
	In Millions of Current Dollars			Growth Rate	
	1980	1990	1998	1980 to 1990	1990 to 1998
Indiana	58,501	110,991	174,433	89.7%	57.2%
U.S.	2,731,618	5,706,658	8,745,219	108.9%	53.2%
Indiana as % of U.S. GDP	2.1%	1.9%	2.0%		

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*.

The State's economy is increasingly diversified, having undergone a shift in composition over time. Since 1980, agriculture has declined in importance to the Indiana economy, accounting for 1.4% of the State's economic production in 1998, same as the national average. Conversely, the service sector has grown significantly, increasing from 14.8% to 16.2% of total state output. Manufacturing, and in particular durable goods manufacturing, has witnessed modest relative declines in its share of Gross State Product, but at 31.1% still remains the single largest component of the economy.

<b>Table 30</b>							
<b>Gross State Product (GSP) and Gross Domestic Product (GDP)</b>							
	1990		1998		1998		Indiana
	GSP (millions)	% of Total	GSP (millions)	% of Total	GDP (millions)	% of Total	as a % of U.S
Agriculture, forestry, fisheries	2,476	2.2%	2,498	1.4%	125,205	1.4%	2.0%
Mining	640	0.6%	792	0.5%	105,914	1.2%	0.7%
Construction	5,074	4.6%	8,708	5.0%	373,228	4.3%	2.3%
Manufacturing	33,665	30.3%	54,258	31.0%	1,432,753	16.4%	3.8%
Transportation & Utilities	10,111	9.1%	13,623	7.8%	759,132	8.7%	1.8%
Wholesale Trade	6,452	5.8%	10,784	6.2%	613,800	7.0%	1.8%
Retail Trade	10,238	9.2%	15,576	8.9%	781,888	8.9%	2.0%
Finance, Insurance, Real Estate	13,691	12.3%	22,731	13.0%	1,674,162	19.1%	1.4%
Services	16,416	14.8%	28,313	16.2%	1,841,278	21.1%	1.5%
Government	12,228	11.0%	17,150	9.8%	1,037,857	11.9%	1.7%
Summed Total	110,991		174,433		8,745,219		2.0%

Source: U.S. Department of Commerce, Bureau of Economic Analysis. Totals may not add due to rounding.

## Exports

Between 1988 and 2000, both Indiana and the nation experienced strong export growth. During this period, Indiana exports increased by over 247%, exceeding the overall national growth rate by 150%. In 2000, Indiana experienced export growth of slightly more than 19.17% while exports for the United States increased by about 12.64%. In 2000, the State's exports rose to an all-time high of \$16.53 billion. The fastest growing industry was Primary Metals, with a 56% increase, followed by Industrial Machinery and Computer Equipment with a 35% growth over the prior year. Mexico accounts for the fastest growing market, with exports more than doubling from \$812 million to \$2.217 billion. Canada remained Indiana's largest trading partner. In 2000, Indiana opened its 13<sup>th</sup> foreign trade office in Israel.

<b>Table 31</b>					
<b>Indiana Exports</b>					
Year	Exports in Millions of Dollars		Annual Percentage Change		
	Indiana	U.S.	Indiana	U.S.	Indiana as a % Of U.S. Exports
1988	4,759	312,060	-.%	-.%	1.5%
1989	5,414	348,127	13.77	11.56	1.6
1990	6,359	392,975	17.46	12.88	1.6
1991	6,438	421,853	1.23	7.35	1.5
1992	6,837	447,471	6.21	6.07	1.5
1993	8,033	464,858	17.49	3.89	1.7
1994	9,261	512,416	15.29	10.23	1.8
1995	11,628	583,031	25.56	13.78	2.0
1996	12,039	622,827	3.53	6.83	1.9
1997	13,136	687,598	9.11	10.40	1.9
1998	13,403	680,474	2.03	(1.04)	2.0
1999	13,970	692,820	4.23	1.81	2.0
2000	16,528	780,419	19.17	12.64	2.1

<b>Table 32</b>			
<b>Indiana's Leading Trade Partners</b>			
Top Export Destinations		Fastest Growing Export Destinations <b>Since 1988*</b>	
Country	2000 Exports (\$M)	Country	% Avg. Annual
Canada	\$7554	Poland	40.6
Mexico	2,217	Philippines	28.2
Uk	890	Hungary	28.0
Japan	876	Mexico	27.3
Netherlands	577	Malaysia	25.5
France	522	Honduras	23.8
Germany	452	Argentina	22.3
Brazil	328	Portugal	22.1
Australia	284	United Arab Emirates	21.6
Singapore	282	Chile	20.6

\* Includes only those export destinations receiving over \$100 million in total exports from Indiana since 1988.

Table 33

## Indiana's Leading Export Industries

Top Export Industries		Fastest Growing Export Industries Since 1988*	
Industry	2000 Exports (\$M)	Industry	% Avg. Annual Growth
Transportation Equipment	\$4,901	Fabricated Metal	18.13
Industrial Machinery	2,916	Stone, Clay, & Glass	17.62
Chemicals	2,372	Transportation Equipment	15.90
Electronics	1,411	Instruments	14.65
Primary Metals	1,026	<b>Rubber &amp; Plastic</b>	13.81
Fabricated Metals	880	<b>Industrial Machinery</b>	12.08
Technology Instruments	844	Wood Products	11.59
Rubber & Misc. Plastic	579	Food Products	9.72
Food Products	291	<b>Electronics</b>	8.30
Stone, Clay, & Glass	206	<b>Primary Metals</b>	7.95

Includes only those export destinations with growth over \$100 million in total exports from Indiana since 1988.

Excludes Miscellaneous Goods shipments

Growth is based on geometric growth rate.

Source: Massachusetts Institute for Social and Economic Research (MISER)

## Transportation

Indiana is bordered on the north by Lake Michigan and the State of Michigan, on the south by the Ohio River and the Commonwealth of Kentucky, on the east by the State of Ohio, and on the west by the State of Illinois. The "Crossroads of America," Indiana is centrally situated within the Great Lakes region and is within a day's drive of nearly two-thirds of the United States' population. In addition to an extensive network of highways and railroads, the State has strong air service for both passengers and freight and access to the Great Lakes and the St. Lawrence Seaway, as well as the Ohio and Mississippi rivers.

**Highways.** Five interstate routes converge on Indianapolis. The Indiana Department of Transportation manages a network of more than 11,000 miles (17,600 km) of federal and State highways. The State is an important location for truck terminals and warehouse centers. This is reflected in the density of truck traffic in the state. Indiana highways have sixth highest concentration of truck traffic and the highest for any urban or Eastern state.

**Railroads.** Indiana is served by at least 45 freight railroads according to the Rail Section of the Indiana Department of Transportation. The State rail network provides, among other transportation services, access between northeast and western states and between the City of Chicago and the southeastern states. The State has approximately 4,250 miles of railroad track. Ninety of Indiana's ninety-two counties have direct rail service.

**Aviation.** The State has 117 public use landing facilities. Of these, five are primary airports, 11 are reliever airports, 91 are general aviation airports, 4 are ultralight flight parks, 4 are seaplane bases, and 2 are heliports. The primary airports include one medium hub, two small hub airports and two nonhub airports. The world's leading air cargo and package services operate major facilities in Indiana, including Federal Express, the U.S. Postal Service and American International Freightways.

**Ports and Waterways.** The Great Lakes/St. Lawrence Seaway and the Ohio River provide conduits for bulk commodities and general cargo movement of agricultural and manufacturing products. In 1970, the State opened Indiana's International Port, on Lake Michigan to accommodate international and Great Lakes traffic. In 1979, the State opened Southwind Maritime Centre, along the Ohio River, near Mount Vernon in southwest Indiana; and, in 1984, the State opened Clark Maritime Centre along the Ohio River, near Jeffersonville, in south central Indiana.

**Public Transportation.** Indiana's 43 public transit systems include fixed route and demand response bus systems including one commuter rail system (between South Bend and Chicago). The State's public transit systems carried over 30.3 million passengers in 1999, an increase of 6.8% from 1998. Transit system vehicles traveled 31.0 million miles in 1999, an increase of 5.2% from 1998. Total fare revenue collected in 1999 was \$29.6 million. The statewide farebox recovery percentage (which illustrates the extent to which total operating expenses are covered by fare-paying passengers) was 27.4% in 1999. The State Public Mass Transportation Fund, which receives .8% of total State Sales and Use Taxes, accounted for \$26.3 million, or 24.0%, of total public transit operating revenues in 1999.

## **Education**

**Elementary and Secondary.** Elementary and Secondary education in the State is provided by 294 school districts, which in the 1999-00 school year operated 1,149 elementary schools, 258 elementary/ junior high schools, 19 elementary/high schools, 92 junior high/high schools, 74 junior high schools, 240 high schools and 7 schools of special education, vocational education and alternative programs. These numbers do not include private or independent or parochial elementary and high schools, which, in the 1999-00 school year, accounted for 7.1% of the total enrollment at elementary and secondary schools within the State. Public student enrollment for the 1999-00 school year was 985,469.

All public elementary and secondary schools are administered locally by elected or appointed school boards. At the State level, schools are administered by the State Board of Education, which is comprised of the Superintendent of Public Instruction (who serves as chairman) and ten members appointed by the Governor and the Superintendent of Public Instruction for four-year terms. At least four of the appointments must be actively employed in Indiana schools and hold valid teaching licenses. The State Board of Education is the State's policymaking and planning body for the public school system. The State Department of Education serves as the professional, technical and clerical staff for the Indiana State Board of Education.

Approximately 59,735 teachers and 10,344 other professional staff members were employed in the State public school system during the 1999-00 school year. This results in a student teacher ratio (based on total enrollment,) of 16.5:1. The average annual salary for public school teachers in the State (excluding part-time teachers) was \$41,850 during the 1999-00 school year.

**Higher Education.** The Commission for Higher Education was established in 1971 to plan and coordinate Indiana's system of post-secondary education. The Commission develops long-range plans, reviews budget requests of public post-secondary institutions, and considers the approval of new degree programs.

Indiana has seven public post-secondary institutions. They include six universities, one of which offers only two-year degrees, and a technical college. Indiana University manages seven campuses including the flagship campus in Bloomington and the joint IU-Purdue campus in Indianapolis. Purdue University is the State's land grant institution. It manages four campuses, including a joint IU-Purdue campus in Fort Wayne. Ivy Tech State College offers degree programs on twenty-three campuses. Vincennes University maintains a branch campus in Jasper and several instructional sites in Indianapolis. The State is also home to more than thirty-two independent colleges and universities. In the fall of 2000, Indiana's public campuses enrolled 243,282 students – a 4% increase over fall 1999 enrollment, while the independent campuses enrolled 68,106 – a 1.4% increase over fall 1999 enrollment.

In 1999, the Indiana General Assembly authorized the creation of a new learning partnership in Indiana, the Community College of Indiana. This partnership of Ivy Tech State College and Vincennes University will focus on both non-degree, skill improvement courses as well as two-year degrees, with greater opportunity to transfer course credits to four-year state universities. The new Community College will stress accessible and affordable education, training and support services. Ivy Tech's twenty-three statewide campuses will provide the facilities for the College. Initial pilot sites in Evansville, Gary, Lafayette and Indianapolis opened in the fall of 2000 with very strong enrollment gains.. Current plans are that campuses in Anderson, Lawrenceburg, Marion and Muncie will be added in 2001, with expansion to all Ivy Tech locations over the next six years.



In 1998, nearly 61% of Indiana's high school graduates went on to college, compared to the national average of 57.2%, ranking Indiana 17<sup>th</sup> in the nation. This is the first time ever that Indiana has exceeded the national average. From 1994 to 1998, the national average experienced little to no growth while Indiana's college-going rate increased by 5.5%, placing the state among the top ten for percentage gains in college attendance of high school graduates.

Fiscal year 2000-01 state operating appropriations for the seven public institutions total \$1.1 billion, while estimated tuition and fee income totals \$828 million. Also for 2000-01, the General Assembly appropriated \$150 million for campus facilities, including debt service and repair and rehabilitation funding for buildings and utilities. The legislature also provided \$119 million for the state student assistance program and \$60 million for higher education line items.

<b>Public Post-Secondary Institutions 1999-00</b>			
<b>Name</b>	<b>Programs Offered</b>	<b>FTE Enrollment</b>	<b>Campus Locations</b>
Ball State University	4-year	17,596	Muncie
Indiana State University	4-year	9,857	Terre Haute
Indiana University	4-year	72,045	Bloomington, Richmond, Kokomo, Gary, South Bend, New Albany, Indianapolis, Fort Wayne
Purdue University	4-year	53,535	West Lafayette, Hammond, Fort Wayne, Westville, Indianapolis
University of Southern Indiana	4-year	7,188	Evansville
Vincennes University	2-year	6,806	Vincennes, Jasper, Indianapolis
Ivy Tech State College	2-year	25,197	Gary, East Chicago, South Bend, Elkhart, Valparaiso, Fort Wayne, Lafayette, Kokomo, Muncie, Anderson, Wabash Valley, Richmond, Columbus and Bloomington, Lawrenceburg, Evansville, Sellersburg, Indianapolis

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## LITIGATION

The following is a summary of certain significant litigation and other claims currently pending against the State. This summary is not exhaustive either as to the description of the specific litigation or claims described or as to all of the litigation or claims currently pending or threatened against the State.

In 1968, a lawsuit seeking to desegregate the Indianapolis Public Schools was filed in the United States District Court for the Southern District of Indiana. Since about 1978, the State has paid several million dollars per year for inter-district busing that is expected to continue through 2016. The federal court entered its final judgment in 1981 holding the State responsible for most costs of its desegregation plan, and those costs have been part of the State's budget since then. In June 1998, the parties negotiated an 18-year phase out of the desegregation plan that was approved by the Court and will gradually reduce the State's expenditures over that time frame.

On July 26, 1993, a lawsuit was filed in Marion Superior Court alleging that the State has failed to pay certain similarly classed State employees at an equal rate of pay. The plaintiffs in the action sought class action status. The relief sought includes damages in an unspecified amount, as well as injunctive relief. This matter is still pending and, if the plaintiffs are ultimately successful, the loss would be in excess of \$5 million.

In a lawsuit filed against the State on January 9, 1993, the Marion County Superior Court invalidated the portion of the Medicaid disability standard that permits the State to ignore applicant's inability to pay for medical treatment that would lead to improvement in the applicant's medical condition. After an appeal and remand, the trial court again invalidated the standard in December 1999, and the Court of Appeals affirmed the trial court's decision. The State sought transfer to the Supreme Court and was notified on June 21, 2001 that transfer had been denied. The State has not fully determined the ultimate fiscal impact of the judgment of the Marion Superior Court upon the State, nor has it formed an opinion or conclusion as to whether the finality of the judgment will have a material adverse effect upon the financial condition of the State. The State, however, estimates that under certain circumstances the fiscal impact could be as much as \$90,000,000 per year in additional State Medicaid expenditures, plus damages incurred in prior years by class members.

In 1993, certain transportation providers filed lawsuits against the State, challenging the current Medicaid reimbursement program for transportation services. The State prevailed before two trial courts, but the plaintiffs appealed. The State won the appeal, but the federal appeal resulted in a remand for lack of federal jurisdiction. The State will retry the federal issues before a state trial court. If the rules are ultimately enjoined, the State would forfeit savings in excess of \$5 million.

A class action by a group of truckers and trucking companies seeks what may be in excess of \$5 million in fuel tax refunds attributable to five quarters between the date the previous proportional use exemption was declared unconstitutional and the date the present proportional use exemption was enacted. The case is presently pending in the Tax Court.

In September 2000 various Lake County officials filed a lawsuit in Tax Court claiming that residents of the county pay a disproportionate share of Hospital Care for the Indigent property tax and that the tax therefore violates various constitutional provisions. It is similar to five previous suits that were dismissed on procedural grounds but this one is likely to be addressed on the merits. A response to the petition was filed in November 2000. Plaintiffs are claiming that upwards of \$20 million should be refunded to taxpayers.

In February 2000 several trucking companies filed a suit in Tax Court challenging the collection of motor fuel tax attributable to miles driven on the Indiana Toll Road and seeking refunds of approximately \$100 million. They claim that motor fuel tax tied to Toll Road use violates the Commerce Clause of the U.S. Constitution and constitutes double taxation as the truckers also pay to use the Toll Road. Motions on class certification issues and liability are presently pending before the Tax Court.

A gaming corporation operating one of the riverboats has challenged the interpretation the Department of Revenue has placed on the Riverboat Gaming Tax, claiming that the tax is not an add-back tax for adjusted gross income tax and supplemental net income tax purposes. The case is pending before the Tax Court on cross motions

for summary judgement. The potential financial impact of this case is between \$5 and \$10 million, with additional impact because of the precedent it would have on other gaming operations.

Property owners filed an action against the Department of Environmental Management, the Office of Environmental Adjudication and current and former officials of those agencies claiming the denial of a permit for certain land use was an unconstitutional taking and denial of due process, as well as violation of the Indiana Constitution. The case is pending in federal court and is in the earliest stages of litigation.

The State intends to vigorously defend each of the foregoing suits or other claims.

The State does not establish reserves for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from the State's unappropriated balances and reserves, if any. See "FINANCIAL RESULTS OF OPERATIONS." With respect to tort claims only, the State's liability is limited to \$300,000 for injury to or death of one person in any one occurrence, and \$5,000,000 for injury to or death of all persons in that occurrence.

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**EXHIBIT A-1  
TO  
APPENDIX A**

**GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE STATE OF INDIANA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

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# INDIANA

TUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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4TH FLOOR, ROOM E418  
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## INDEPENDENT AUDITORS' REPORT

TO: The Honorable Frank O'Bannon  
The Legislative Council of the General Assembly, and  
The Citizens of the State of Indiana

We have audited the accompanying general purpose financial statements of the State of Indiana as of and for the year ended June 30, 2000. These general purpose financial statements are the responsibility of the State of Indiana's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of certain component units of the State, as discussed in Note I(A), which statements reflect total assets and revenues of \$5,421.4 million and \$1,047.8 million, respectively, as of and for the year ended June 30, 2000. The financial statements of these component units were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to those units, is based solely upon the reports of the other auditors. The reports represent 20.7% of special revenue fund assets, 100% of debt service fund assets, 1.5% of capital projects fund assets, 94.5% of enterprise fund assets, 88.8% of internal service fund assets and 100% of proprietary and governmental discretely presented component unit assets.

We conducted our audit in accordance with general accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Indiana as of June 30, 2000, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended, in conformity with generally accepted accounting principles.

As discussed in Note III (I) to the financial statements, the State of Indiana has restated certain beginning fund balances and retained earnings. The Housing Finance Authority, a discretely presented component unit, reports on a December 31, 1999 year end.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the State of Indiana. The combining and individual fund financial statements, account groups and schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information, and not the information in the Introductory and Statistical sections, has been subjected to auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements of each of the fund types and account groups included in the general purpose financial statements taken as a whole. We express no opinion on the information in the Introductory or Statistical Sections.

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2000, on our consideration of the State of Indiana's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants.

December 20, 2000

*State Board of Accounts*  
STATE BOARD OF ACCOUNTS





# STATE OF INDIANA

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: The Honorable Frank O'Bannon  
The Legislative Council of the General Assembly, and  
The Citizens of the State of Indiana

We have audited the financial statements of the State of Indiana as of and for the year ended June 30, 2000, and have issued our report thereon dated December 20, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the State of Indiana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Indiana's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the State of Indiana's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the single audit report of the State of Indiana.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. The reportable conditions referred to above may be considered material weaknesses.

This report is intended solely for the information and use of the State of Indiana's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1 this report is a part of the public records of the State Board of Accounts and of the office examined.

December 20, 2000

*State Board of Accounts*  
STATE BOARD OF ACCOUNTS

State of Indiana  
 Combined Balance Sheet  
 All Fund Types, Account Groups, and Component Units  
 June 30, 2000  
 (amounts expressed in thousands)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
<b>Assets and other debits:</b>						
<b>Assets:</b>						
Cash, cash equivalents and investments - restricted	\$ -	\$ -	\$ -	\$ -	\$ 58,134	\$ 14,380
Cash, cash equivalents and investments - unrestricted	2,725,338	2,842,876	12,914	470,941	284,019	218,394
Securities lending collateral	2,917,034	750,949	-	347,140	-	2,173
<b>Receivables:</b>						
Taxes	847,551	203,389	-	1,459	-	-
Accounts	-	11,542	-	-	17,652	9,205
Grants	86	90,953	-	174	-	-
Notes	-	-	-	-	-	-
Interest	15,895	23,183	30	1,840	723	905
Contributions	-	-	-	-	-	-
Member loans	-	-	-	-	-	-
Interfund	10,131	7,500	-	25,782	-	-
Due from other funds	159	-	3,398	-	-	7,252
From investment sales	-	-	-	-	-	-
Other	-	-	-	-	-	-
Due from primary government	-	-	-	-	-	-
Advances to other funds	2,408	54,411	-	2,334	865	300
Intergovernmental loans	10,448	328,848	-	7,758	-	-
Student loans	-	-	-	-	-	-
Mortgage loans	-	-	-	-	-	-
Inventory	-	-	-	-	4,821	10,847
Prepaid expenses/expenditures	1,569	4,401	-	-	569	1,551
Food stamp inventory	-	83,064	-	-	-	-
Construction in progress	-	-	-	-	21,400	82,228
Bond issue costs - net of amortization	-	-	-	-	2,105	10,855
Property, plant and equipment, net	-	-	-	-	215,409	580,948
Other assets	-	-	-	861	10,919	-
<b>Other debits:</b>						
Amount available for debt service fund	-	-	-	-	-	-
Amount to provided for retirement of long term debt	-	-	-	-	-	-
<b>Total assets and other debits</b>	<b>\$ 8,330,617</b>	<b>\$ 4,198,084</b>	<b>\$ 16,330</b>	<b>\$ 858,288</b>	<b>\$ 614,418</b>	<b>\$ 918,718</b>
<b>Liabilities, equity and other credits:</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 123,231	\$ 522,758	\$ 2	\$ 5,225	\$ 21,791	\$ 15,589
Accrued interest payable	-	-	4,288	-	5,402	37,401
Salaries and benefits payable	40,228	38,235	-	-	2,724	961
Capital lease payable	-	-	-	-	-	94
Pension / health / disability benefits payable	-	-	-	-	-	22,416
Interfund payables	-	10,131	-	-	40,782	-
Due to component unit	-	551,680	-	-	-	-
Due to other funds	2,235	9,228	-	-	-	242
Tax refunds payable	25,698	2	-	-	-	-
Deferred revenue	-	105,425	-	-	3,252	6,415
Accrued prize liability	-	-	-	-	42,421	-
Accrued liability for compensated absences	2,608	2,599	-	-	-	82
Intergovernmental payable	-	-	-	-	-	-
Escheated property liability	-	-	-	-	-	-
Investment purchases payable	-	-	-	-	-	-
Other liabilities	-	-	-	-	1,283	501
Securities lending collateral	2,917,034	750,949	-	347,140	-	2,173
Obligations under reverse repurchase agreements	-	-	-	-	-	-
Reimbursement agreement obligation	-	-	-	-	-	-
<b>Long term liabilities:</b>						
Construction retention	-	-	-	-	-	3,201
Accrued liability for compensated absences	-	-	-	-	330	1,538
Capital lease payable	-	-	-	-	-	133
Accrued prize liability	-	-	-	-	62,762	-
Advances from other funds	-	58,319	-	865	2,834	500
Revenue bonds / notes payable	-	-	-	-	242,516	753,491
<b>Total liabilities</b>	<b>3,111,332</b>	<b>2,045,306</b>	<b>4,290</b>	<b>353,230</b>	<b>425,877</b>	<b>844,747</b>
<b>Equity and other credits:</b>						
Investment in general fixed assets / plant	-	-	-	-	-	-
Contributed Capital	-	-	-	-	9,308	20,349
<b>Retained earnings:</b>						
Reserved (see note III, G.)	-	-	-	-	80,922	7,397
Unreserved	-	-	-	-	118,309	48,223
<b>Fund balances:</b>						
Reserved (see note III, G.)	333,308	1,399,721	12,040	23,307	-	-
<b>Unreserved:</b>						
Allocated	-	-	-	-	-	-
Unallocated	-	-	-	-	-	-
Designated for appropriations	372,412	242,736	-	359,099	-	-
Designated for allotments	1,155,800	1,270,274	-	101,848	-	-
Undesignated	1,357,965	(758,943)	-	20,807	-	-
<b>Total equity and other credits</b>	<b>3,219,285</b>	<b>2,153,788</b>	<b>12,040</b>	<b>505,059</b>	<b>188,539</b>	<b>73,969</b>
<b>Total liabilities, equity and other credits</b>	<b>\$ 8,330,617</b>	<b>\$ 4,198,084</b>	<b>\$ 16,330</b>	<b>\$ 858,288</b>	<b>\$ 614,418</b>	<b>\$ 918,718</b>

The notes to the financial statements are an integral part of this statement.

COMPREHENSIVE ANNUAL FINANCIAL REPORT STATE OF INDIANA - 7

Fiduciary Fund Types	Account Groups		Totals Primary Government	Component Units			Totals Reporting Entity
	General Fixed Assets	General Long Term Debt	(Memorandum Only)	Governmental	Proprietary	Colleges and Universities	(Memorandum Only)
Trust and Agency							
\$ -	\$ -	\$ -	\$ 70,494	\$ 4,768	\$ 278,462	\$ -	\$ 353,722
18,713,439	-	-	25,067,921	28,205	334,295	2,308,991	27,739,372
1,571,671	-	-	5,568,967	-	297,307	148,403	6,032,677
20,147	-	-	872,526	-	-	-	872,526
42	-	-	38,441	-	-	138,455	174,896
-	-	-	91,213	-	-	-	91,213
-	-	-	-	1,984	-	-	1,984
103,721	-	-	148,297	-	44,074	17,608	207,977
135,605	-	-	135,605	-	-	-	135,605
8,666	-	-	8,666	-	-	-	8,666
7,500	-	-	50,913	-	-	-	50,913
14,810	-	-	25,407	-	-	-	25,407
210,081	-	-	210,081	-	-	-	210,081
-	-	-	-	282	-	3,488	3,768
-	-	-	-	-	551,660	-	551,660
-	-	-	60,318	-	-	-	60,318
269,785	-	-	614,815	-	694,825	-	1,309,440
-	-	-	-	-	194,374	121,885	316,259
-	-	-	-	-	670,393	-	670,393
-	-	-	15,468	-	-	31,372	46,840
17	-	-	8,107	-	-	19,471	27,578
-	-	-	83,064	-	-	-	83,064
-	-	-	83,628	-	-	16,987	100,615
-	-	-	12,960	-	20,411	-	33,371
122	1,564,231	-	2,360,408	-	394	3,121,892	5,482,694
-	-	-	11,780	-	3,177	14,342	29,299
-	-	12,040	12,040	-	-	-	12,040
-	-	806,728	806,728	-	-	-	806,728
\$ 21,055,388	\$ 1,564,231	\$ 818,768	\$ 36,375,847	\$ 35,237	\$ 3,089,162	\$ 5,938,860	\$ 45,438,106
\$ 377,785	\$ -	\$ -	\$ 1,066,381	\$ 40	\$ 3,117	\$ 114,074	\$ 1,183,612
-	-	-	47,091	-	29,139	-	76,230
7,970	-	-	88,118	-	-	23,073	111,191
-	-	-	94	-	-	36,377	36,471
-	-	-	22,418	-	-	-	22,418
-	-	-	50,913	-	-	-	50,913
-	-	-	551,660	-	-	-	551,660
13,702	-	-	25,407	-	-	-	25,407
-	-	-	25,898	-	-	-	25,898
-	-	-	115,082	-	-	58,358	173,450
-	-	-	42,421	-	-	-	42,421
-	-	-	5,599	-	-	64,991	70,590
13,111	-	-	13,111	-	-	-	13,111
6,808	-	-	6,808	-	-	-	6,808
303,813	-	-	303,813	-	-	-	303,813
867	-	-	2,631	4,259	1,646	147,784	156,320
1,571,671	-	-	5,568,967	-	297,307	148,403	6,032,677
-	-	-	-	-	-	124,313	124,313
-	-	-	-	167	-	-	167
-	-	-	3,201	-	-	-	3,201
-	-	109,340	111,208	-	-	-	111,208
-	-	4,412	4,545	-	-	-	4,545
-	-	-	62,782	-	-	-	62,782
-	-	-	60,318	-	-	-	60,318
-	-	705,016	1,701,023	-	2,320,945	1,174,948	5,196,916
2,295,727	-	818,768	9,899,277	4,466	2,652,154	1,890,321	14,448,216
-	1,564,231	-	1,564,231	-	-	1,953,243	3,517,474
-	-	-	29,857	-	-	-	29,857
-	-	-	68,319	-	-	-	68,319
-	-	-	164,532	-	437,008	-	601,540
16,455,869	-	-	18,224,245	10,102	-	409,090	18,643,416
-	-	-	-	-	-	842,440	842,440
-	-	-	-	-	-	843,787	843,787
2,805	-	-	977,052	-	-	-	977,052
664,209	-	-	3,191,829	-	-	-	3,191,829
1,636,776	-	-	2,256,805	20,669	-	-	2,277,274
18,759,659	1,564,231	-	26,478,570	30,771	437,008	4,048,539	30,992,888
\$ 21,055,388	\$ 1,564,231	\$ 818,768	\$ 36,375,847	\$ 35,237	\$ 3,089,162	\$ 5,938,860	\$ 45,438,106

**8 - STATE OF INDIANA COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**State of Indiana  
Combined Statement of Revenues, Expenditures and Changes in Fund Balances  
All Governmental Fund Types, Expendable Trust Funds, and Similar Discretely  
Presented Component Units  
For the Fiscal Year Ended June 30, 2000  
(amounts expressed in thousands)**

	Governmental Fund Types				Fiduciary Fund Type	Totals Primary Government	Component Units	Totals Reporting Entity
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)	Governmental	(Memorandum Only)
<b>Revenues:</b>								
Taxes	\$ 8,113,160	\$ 2,973,843	\$ -	\$ 15,311	\$ 298,220	\$ 11,400,534	\$ -	\$ 11,400,534
Licenses, permits and franchises	20,306	386,834	-	-	-	407,140	-	407,140
Current service charges	161,836	487,733	-	140	-	649,709	128	649,837
Investment income	386,544	118,184	1,072	41,148	133,725	680,673	1,395	682,068
Sales/rents	761	65,894	-	-	-	66,655	14	66,669
Member contributions	-	-	-	-	52,025	52,025	-	52,025
Grants	9,808	4,731,663	-	8,346	9,599	4,759,416	-	4,759,416
Donations/escheats	-	3,745	-	-	24,022	27,767	-	27,767
Other	8,904	218,191	8	934	-	228,037	-	228,037
<b>Total revenues</b>	<b>8,701,319</b>	<b>8,988,087</b>	<b>1,080</b>	<b>65,879</b>	<b>517,591</b>	<b>18,271,956</b>	<b>1,537</b>	<b>18,273,493</b>
<b>Expenditures:</b>								
<b>Current:</b>								
General government	1,847,518	1,828,575	-	-	2,164	3,678,257	-	3,678,257
Public safety	550,897	439,097	-	-	-	989,994	-	989,994
Health	127,727	170,315	-	-	-	298,042	-	298,042
Welfare	353,440	4,794,555	-	-	4,360	5,152,355	-	5,152,355
Conservation, culture and development	68,381	411,425	-	-	283,641	763,447	3,950	767,397
Education	5,166,636	567,226	-	-	-	5,733,862	-	5,733,862
Transportation	6,982	1,246,870	-	-	-	1,253,852	-	1,253,852
Member withdrawals	-	-	-	-	19,168	19,168	-	19,168
Other	1,083	-	-	-	-	1,083	-	1,083
Capital outlays	-	-	-	178,099	-	178,099	-	178,099
Loss on reimbursement agreement	-	-	-	-	-	-	333	333
Debt service	-	-	55,328	-	-	55,328	-	55,328
<b>Total expenditures</b>	<b>8,122,664</b>	<b>9,458,063</b>	<b>55,328</b>	<b>178,099</b>	<b>309,333</b>	<b>18,123,487</b>	<b>4,283</b>	<b>18,127,770</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>578,655</b>	<b>(471,976)</b>	<b>(54,248)</b>	<b>(112,220)</b>	<b>208,258</b>	<b>148,469</b>	<b>(2,746)</b>	<b>145,723</b>
<b>Other financing sources (uses):</b>								
Operating transfers in	1,991,124	4,011,520	55,703	364,262	2,419	6,425,028	-	6,425,028
Operating transfers (out)	(2,779,518)	(3,258,712)	(121)	(264,705)	(31,454)	(6,334,510)	-	(6,334,510)
Operating transfers in - from primary government	-	-	-	-	-	-	13,478	13,478
Operating transfers in - from component unit	-	2,400	-	-	1,724	4,124	-	4,124
Operating transfers (out) - to component unit	(13,478)	-	-	-	-	(13,478)	-	(13,478)
Proceeds from capital leases	1,926	803	-	-	-	2,729	-	2,729
<b>Total other financing sources (uses)</b>	<b>(799,946)</b>	<b>756,011</b>	<b>55,582</b>	<b>99,557</b>	<b>(27,311)</b>	<b>83,893</b>	<b>13,478</b>	<b>97,371</b>
<b>Excess of revenues and other financing sources over (under) expenditures and other uses</b>	<b>(221,291)</b>	<b>284,035</b>	<b>1,334</b>	<b>(12,663)</b>	<b>180,947</b>	<b>232,362</b>	<b>10,732</b>	<b>243,094</b>
<b>Fund balances, July 1, as restated</b>	<b>3,440,576</b>	<b>1,869,753</b>	<b>10,706</b>	<b>517,722</b>	<b>1,941,517</b>	<b>7,780,274</b>	<b>20,039</b>	<b>7,800,313</b>
<b>Fund balances, June 30</b>	<b>\$ 3,219,285</b>	<b>\$ 2,153,788</b>	<b>\$ 12,040</b>	<b>\$ 505,059</b>	<b>\$ 2,122,464</b>	<b>\$ 8,012,636</b>	<b>\$ 30,771</b>	<b>\$ 8,043,407</b>

The notes to the financial statements are an integral part of this statement.

State of Indiana  
**Combined Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Budget and Actual**  
**(Budgetary Basis Variances with GAAP)**  
**General Fund**  
**For the Year Ended June 30, 2000**  
 (amounts expressed in thousands)

	Budget		Actual	Variance
	Original	Final		
<b>Revenues:</b>				
Tax	\$ 7,451,408	\$ 7,451,408	\$ 8,105,120	\$ 653,712
Licenses	20,090	20,090	20,306	216
Current service charges	133,139	133,139	161,836	28,697
Investment income	170,000	170,000	229,383	59,383
Sales	-	-	603	603
Grants	67,900	67,900	10,779	(57,121)
Other	2,700	2,700	8,904	6,204
<b>Total revenues</b>	<b>7,845,237</b>	<b>7,845,237</b>	<b>8,536,931</b>	<b>691,694</b>
<b>Expenditures:</b>				
General government	2,343,462	2,140,846	1,689,882	450,964
Public safety	629,880	649,222	554,665	94,557
Health	126,261	136,520	125,677	10,843
Welfare	349,570	392,196	349,002	43,194
Conservation, culture and development	91,075	170,475	67,751	102,724
Education	5,191,074	5,242,266	5,168,314	73,952
Transportation	1,145	11,588	6,023	5,565
<b>Total expenditures</b>	<b>8,732,467</b>	<b>8,743,113</b>	<b>7,961,314</b>	<b>781,799</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(887,230)</b>	<b>(897,876)</b>	<b>575,617</b>	<b>1,473,493</b>
<b>Other financing sources (uses):</b>				
Total other financing sources (uses)	(980,168)	(980,168)	(801,872)	178,296
<b>Excess of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>\$ (1,867,398)</b>	<b>\$ (1,878,044)</b>	<b>(226,255)</b>	<b>\$ 1,651,789</b>
<b>Fund balances July 1, as restated</b>			<b>2,965,833</b>	
<b>Fund balances June 30</b>			<b>\$ 2,739,578</b>	

The notes to the financial statements are an integral part of this statement.

State of Indiana  
 Combined Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Budget and Actual  
 (Budgetary Basis Variances with GAAP)  
 Special Revenue Fund Types  
 For the Year Ended June 30, 2000  
 (amounts expressed in thousands)

	Budget		Actual	Variance
	Original	Final		
<b>Revenues:</b>				
Tax	\$ 2,751,409	\$ 2,751,409	\$ 2,932,368	\$ 180,959
Licenses	365,502	365,502	386,833	21,331
Current service charges	398,245	398,245	492,868	94,623
Investment income	14,282	14,282	24,777	10,495
Sales	12,224	12,224	13,245	1,021
Grants	3,956,615	3,956,615	4,378,950	422,335
Donations	1,898	1,898	3,750	1,852
Other	163,880	163,880	199,039	35,159
<b>Total revenues</b>	<b>7,664,055</b>	<b>7,664,055</b>	<b>8,431,830</b>	<b>767,775</b>
<b>Expenditures:</b>				
General government	1,811,295	1,837,766	1,730,552	107,214
Public safety	483,494	483,395	405,774	77,621
Health	155,599	177,160	164,026	13,134
Welfare	4,786,536	4,787,147	4,535,020	252,127
Conservation, culture and development	464,772	487,111	389,478	97,633
Education	573,365	577,960	567,482	10,478
Transportation	1,235,740	1,251,176	1,244,545	6,631
<b>Total expenditures</b>	<b>9,510,801</b>	<b>9,601,715</b>	<b>9,036,877</b>	<b>564,838</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(1,846,746)</b>	<b>(1,937,660)</b>	<b>(605,047)</b>	<b>1,332,613</b>
<b>Other financing sources (uses):</b>				
Total other financing sources (uses)	621,742	621,742	777,421	155,679
<b>Excess of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>\$ (1,225,004)</b>	<b>\$ (1,315,918)</b>	<b>172,374</b>	<b>\$ 1,488,292</b>
<b>Fund balances July 1, as restated</b>			<b>1,410,988</b>	
<b>Fund balances June 30</b>			<b>\$ 1,583,362</b>	

The notes to the financial statements are an integral part of this statement.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT STATE OF INDIANA - 11**

State of Indiana  
 Combined Statement of Revenues, Expenses and  
 Changes in Retained Earnings (or Equity)  
 All Proprietary Fund Types, Nonexpendable Trust Funds and  
 Similar Discretely Presented Component Units  
 For the Fiscal Year Ended June 30, 2000  
 (amounts expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals Primary Government	Component Units	Totals Reporting Entity
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	Proprietary Fund Types	(Memorandum Only)
<b>Operating revenues:</b>						
Sales/rents/premiums	\$ 607,625	\$ 52,672	\$ -	\$ 660,297	\$ -	\$ 660,297
Toll receipts	85,655	-	-	85,655	-	85,655
Charges for services	-	96,885	-	96,885	-	96,885
Interest on program loans	-	-	6,350	6,350	59,446	65,796
Investment income	-	-	-	-	57,595	57,595
Insurance premiums	-	96,374	-	96,374	-	96,374
Other	1,168	1,209	-	2,377	11,464	13,841
<b>Total operating revenues</b>	<b>694,448</b>	<b>247,140</b>	<b>6,350</b>	<b>947,938</b>	<b>128,505</b>	<b>1,076,443</b>
<b>Cost of sales</b>	<b>408,447</b>	<b>17,098</b>	<b>-</b>	<b>425,545</b>	<b>-</b>	<b>425,545</b>
<b>Gross Margin</b>	<b>286,001</b>	<b>230,042</b>	<b>6,350</b>	<b>522,393</b>	<b>128,505</b>	<b>650,898</b>
<b>Operating expenses:</b>						
General and administrative expense	69,413	70,050	28,443	167,906	27,380	195,286
Claims expense	1,893	-	-	1,893	-	1,893
Health / disability benefit payments	-	100,983	-	100,983	-	100,983
Death settlements	-	554	-	554	-	554
Medical expense reimbursement	-	385	-	385	-	385
Depreciation and amortization	12,061	18,077	-	30,138	3,236	33,374
Other	191	-	-	191	832	1,023
<b>Total operating expenses</b>	<b>83,558</b>	<b>190,049</b>	<b>28,443</b>	<b>302,050</b>	<b>31,448</b>	<b>333,498</b>
<b>Operating income (loss)</b>	<b>202,443</b>	<b>39,993</b>	<b>(22,093)</b>	<b>220,343</b>	<b>97,057</b>	<b>317,400</b>
<b>Nonoperating revenues (expenses):</b>						
Interest and other investment income (expense)	(4,980)	(32,489)	6,564	(30,905)	(99,068)	(129,973)
Gain (loss) on disposition of assets	-	78	-	78	-	78
Other	(350)	24	-	(326)	(1)	(327)
<b>Total nonoperating revenues (expenses)</b>	<b>(5,330)</b>	<b>(32,387)</b>	<b>6,564</b>	<b>(31,153)</b>	<b>(99,069)</b>	<b>(130,222)</b>
<b>Income (loss) before operating transfers</b>	<b>197,113</b>	<b>7,606</b>	<b>(15,529)</b>	<b>189,190</b>	<b>(2,012)</b>	<b>187,178</b>
<b>Operating transfers in</b>	<b>-</b>	<b>19,372</b>	<b>47,087</b>	<b>66,459</b>	<b>-</b>	<b>66,459</b>
<b>Operating transfers (out)</b>	<b>(164,405)</b>	<b>(20,674)</b>	<b>(1,897)</b>	<b>(186,976)</b>	<b>-</b>	<b>(186,976)</b>
<b>Operating transfers (out) - to primary government</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,124)</b>	<b>(4,124)</b>
<b>Net operating transfers</b>	<b>(164,405)</b>	<b>(1,302)</b>	<b>45,190</b>	<b>(120,517)</b>	<b>(4,124)</b>	<b>(124,641)</b>
<b>Net income (loss)</b>	<b>32,708</b>	<b>6,304</b>	<b>29,661</b>	<b>68,673</b>	<b>(6,136)</b>	<b>62,537</b>
<b>Retained earnings/fund balances, July 1, as restated</b>	<b>146,523</b>	<b>47,316</b>	<b>421,430</b>	<b>615,269</b>	<b>443,144</b>	<b>1,058,413</b>
<b>Retained earnings/fund balances, June 30</b>	<b>\$ 179,231</b>	<b>\$ 53,620</b>	<b>\$ 451,091</b>	<b>\$ 683,942</b>	<b>\$ 437,008</b>	<b>\$ 1,120,950</b>

The notes to the financial statements are an integral part of this statement.

**12 - STATE OF INDIANA COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**State of Indiana  
Combined Statement of Cash Flows  
All Proprietary Fund Types, Nonexpendable Trust Funds and  
Similar Discretely Presented Component Units  
For the Fiscal Year Ended June 30, 2000**

(amounts expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals	Component Units	Totals
	Enterprise	Internal Service	Nonexpendable Trust	Primary Government (Memorandum Only)	Proprietary Fund Types	Reporting Entity (Memorandum Only)
<b>Cash flows from operating activities:</b>						
Operating income (loss)	\$ 202,443	\$ 39,993	\$ (22,093)	\$ 220,343	\$ 97,057	\$ 317,400
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:</b>						
Depreciation/amortization expense	12,061	18,077	-	30,138	3,236	33,374
Other provisions	(7,335)	(1,712)	-	(9,047)	(220)	(9,267)
(Increase) decrease in accounts receivable	14,143	(1,722)	-	12,421	-	12,421
(Increase) decrease in interest receivable	-	-	2,262	2,262	(4,255)	(1,993)
(Increase) decrease in intergovernmental loans	-	-	-	-	(306,165)	(306,165)
(Increase) decrease in student loans	-	-	-	-	52,495	52,495
(Increase) decrease in mortgage loans	-	-	-	-	(99,500)	(99,500)
(Increase) decrease in due from other funds	-	1,771	-	1,771	-	1,771
(Increase) decrease in inventory	(241)	1,154	-	913	-	913
(Increase) decrease in prepaid expenses	(50)	1,001	-	951	-	951
(Increase) decrease in other assets	-	-	-	-	167	167
Increase (decrease) in benefits payable	-	12,648	-	12,648	-	12,648
Increase (decrease) in accounts payable	(619)	(657)	-	(1,276)	1,052	(224)
Increase (decrease) in accrued interest payable	-	-	-	-	1,773	1,773
Increase (decrease) in deferred revenue	154	(398)	-	(244)	(15)	(259)
Increase (decrease) in salaries payable	(1,401)	175	-	(1,226)	-	(1,226)
Increase (decrease) in compensated absences	-	75	-	75	-	75
Increase (decrease) in due to other funds	-	(131)	-	(131)	-	(131)
Increase (decrease) in accrued prize liability	(9,037)	-	-	(9,037)	-	(9,037)
Increase (decrease) in compensated absences	47	-	-	47	-	47
Increase (decrease) in other liabilities	(467)	(140)	-	(607)	456	(151)
<b>Net cash provided (used) by operating activities</b>	<b>209,698</b>	<b>70,134</b>	<b>(19,831)</b>	<b>260,001</b>	<b>(253,919)</b>	<b>6,082</b>
<b>Cash flows from noncapital financing activities:</b>						
Operating transfers in	-	19,372	47,087	66,459	-	66,459
Operating transfers (out)	(172,360)	(20,674)	(1,897)	(194,931)	(4,124)	(199,055)
Issuance of intergovernmental loans	-	-	(60,382)	(60,382)	-	(60,382)
Proceeds from intergovernmental loans	-	-	90,214	90,214	-	90,214
Interest, debt issue costs	-	-	-	-	(120,541)	(120,541)
Proceeds from issuance of debt	-	-	-	-	852,077	852,077
Principal payments - bonds / notes	-	-	-	-	(651,475)	(651,475)
<b>Net cash provided (used) by noncapital financing activities</b>	<b>(172,360)</b>	<b>(1,302)</b>	<b>75,022</b>	<b>(98,640)</b>	<b>75,937</b>	<b>(22,703)</b>
<b>Cash flows from capital and related financing activities:</b>						
Acquisition/construction of fixed assets	(30,670)	(69,856)	-	(100,526)	-	(100,526)
Proceeds from sale of fixed assets	-	325	-	325	-	325
Proceeds from issuance of long-term debt	500	258,293	-	258,793	-	258,793
Principal payments -- capital leases	(362)	(224)	-	(586)	-	(586)
Principal payments -- bonds/notes	(10,253)	(143,120)	-	(153,373)	-	(153,373)
Interest, debt issue costs	(16,244)	(35,933)	-	(52,177)	-	(52,177)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(57,020)</b>	<b>7,485</b>	<b>-</b>	<b>(49,544)</b>	<b>-</b>	<b>(49,544)</b>
<b>Cash flows from investing activities:</b>						
Proceeds from sale of investments	816,041	111,860	439,066	1,366,967	564,241	1,331,208
Purchase of investments	(729,730)	(178,070)	(483,172)	(1,388,972)	(359,173)	(1,748,145)
Interest income on investments	14,730	4,352	8,564	25,646	18,442	44,088
<b>Net cash provided (used) by investing activities</b>	<b>101,041</b>	<b>(59,858)</b>	<b>(37,542)</b>	<b>3,641</b>	<b>223,510</b>	<b>227,151</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>81,350</b>	<b>16,459</b>	<b>17,649</b>	<b>115,458</b>	<b>45,528</b>	<b>160,986</b>
<b>Cash and cash equivalents, July 1</b>	<b>97,353</b>	<b>47,950</b>	<b>44,016</b>	<b>189,319</b>	<b>100,630</b>	<b>289,949</b>
<b>Cash and cash equivalents, June 30</b>	<b>\$ 178,703</b>	<b>\$ 64,409</b>	<b>\$ 61,665</b>	<b>\$ 304,777</b>	<b>\$ 146,158</b>	<b>\$ 450,935</b>
<b>Reconciliation of cash, cash equivalents and investments:</b>						
Cash and cash equivalents at end of year	\$ 178,703	\$ 84,409	\$ 61,665	\$ 304,777	\$ 146,158	\$ 450,935
Investments	181,450	168,345	119,652	449,447	466,589	916,036
Other funds presented on balance sheet (trust and agency)	-	-	18,532,122	18,532,122	-	18,532,122
<b>Cash, cash equivalents and investments per balance sheet</b>	<b>\$ 340,153</b>	<b>\$ 232,754</b>	<b>\$ 18,713,439</b>	<b>\$ 19,286,346</b>	<b>\$ 612,747</b>	<b>\$ 19,899,093</b>
<b>Noncash investing, capital and financing activities:</b>						
Reduction of advance	184	-	-	184	-	184

The notes to the financial statements are an integral part of this statement.



**State of Indiana**  
**Combined Statement of Changes in Plan Net Assets**  
**Pension Trust Funds**  
**For the Fiscal Year Ended June 30, 2000**  
(amounts expressed in thousands)

<b>Additions:</b>	
Member contributions	\$ 240,479
Employer contributions	931,894
Net investment income	1,063,839
Operating transfers in	32,804
Other	<u>1,675</u>
Total additions	<u>2,270,691</u>
<b>Deductions:</b>	
Pension benefits	837,142
Disability and other benefits	23,428
Refunds of contributions and interest	36,300
Administrative	13,000
Operating transfers out	2,805
Other	<u>23</u>
Total deductions	<u>912,698</u>
Net increase (decrease)	1,357,993
Net assets held in trust for pension benefits, July 1, as restated	<u>14,828,111</u>
Net assets held in trust for pension benefits, June 30	<u><u>\$ 16,186,104</u></u>

The notes to the financial statements are an integral part of this statement.

**14 - STATE OF INDIANA COMPREHENSIVE ANNUAL FINANCIAL REPORT**

State of Indiana  
 Combined Statement of Changes in Fund Balances  
 Discretely Presented Component Units - Colleges and Universities  
 For the Fiscal Year Ended June 30, 2000  
 (amounts expressed in thousands)

	Current funds			
	Unrestricted	Restricted	Total current funds	Loan funds
<b>Revenue and other additions:</b>				
Current fund revenues	\$ 2,384,428	\$ 2,978	\$ 2,387,406	\$ -
Grants, gifts and contracts	3,782	614,055	617,837	119,731
Appropriations	98,825	92,429	191,254	-
Additions to plant and facilities	-	-	-	-
Retirement of indebtedness	-	-	-	-
Endowment and investment income	4,815	11,765	16,580	2,544
Bond proceeds	-	-	-	-
Sales and services	-	13,763	13,763	192
Auxiliary services	459,632	-	459,632	-
Other additions	731	14,250	14,981	677
<b>Total revenues and other additions</b>	<b>2,952,213</b>	<b>749,240</b>	<b>3,701,453</b>	<b>123,144</b>
<b>Expenditures and other deductions:</b>				
Current fund expenditures	2,366,912	442,979	2,809,891	-
Restricted fund expenditures	-	264,492	264,492	-
Indirect costs recovered	-	30,637	30,637	-
Direct student loans issued	-	-	-	114,659
Loan cancellations and administration	-	-	-	4,931
Administration	-	-	-	405
Expended for plant facilities and disposals	-	-	-	-
Bond issues and issuance costs, retirements	-	-	-	-
Debt service requirements	-	-	-	-
Depreciation and amortization	-	-	-	-
Other deductions	676	1,475	2,151	506
Auxiliary services	317,538	-	317,538	-
<b>Total expenditures and deductions</b>	<b>2,685,126</b>	<b>739,583</b>	<b>3,424,709</b>	<b>120,501</b>
<b>Excess of revenues and other additions over (under) expenditures and other deductions</b>	<b>267,087</b>	<b>9,657</b>	<b>276,744</b>	<b>2,643</b>
<b>Transfers from (to) other funds:</b>				
Mandatory transfers	(140,261)	5,804	(134,457)	32
Non-mandatory transfers	(93,480)	11,962	(81,518)	430
<b>Total transfers from / to other funds</b>	<b>(233,741)</b>	<b>17,766</b>	<b>(215,975)</b>	<b>462</b>
<b>Net increase (decrease) for the year</b>	<b>33,346</b>	<b>27,423</b>	<b>60,769</b>	<b>3,105</b>
<b>Fund balance, July 1, as restated</b>	<b>528,115</b>	<b>128,868</b>	<b>656,983</b>	<b>56,685</b>
<b>Fund balance, June 30</b>	<b>\$ 561,461</b>	<b>\$ 156,291</b>	<b>\$ 717,752</b>	<b>\$ 59,790</b>

The notes to the financial statements are an integral part of this statement.

COMPREHENSIVE ANNUAL FINANCIAL REPORT STATE OF INDIANA - 15

Endowments and similar funds	Plant funds					Total colleges and universities
	Unexpended	Renewal and replacement	Retirement of indebtedness	Investment in plant	Total plant funds	
\$ -	\$ -	\$ -	\$ 2,864	\$ -	\$ 2,864	\$ 2,390,270
17,127	22,520	207	373	1,711	24,811	779,506
-	60,580	3,829	-	-	64,409	255,663
-	8,290	-	-	329,274	337,564	337,564
-	2,361	-	-	110,893	113,254	113,254
53,133	16,151	3,131	1,517	-	20,799	93,056
-	46,180	-	-	-	46,180	46,180
-	-	-	-	-	-	13,955
-	-	-	-	-	-	459,632
475	19,914	807	9,360	41	30,122	46,255
<u>70,735</u>	<u>175,996</u>	<u>7,974</u>	<u>14,114</u>	<u>441,919</u>	<u>640,003</u>	<u>4,535,335</u>
-	-	-	-	-	-	2,809,891
-	-	-	-	-	-	264,492
-	-	-	-	-	-	30,637
-	-	-	-	-	-	114,659
-	-	-	-	-	-	4,931
1,684	11,854	6,638	591	-	19,083	21,172
-	286,340	27,935	-	11,061	325,336	325,336
-	142	-	49,343	69,827	119,312	119,312
-	2,296	-	88,673	-	90,969	90,969
-	-	-	-	211,411	211,411	211,411
11,957	1,403	215	257	41	1,916	16,530
-	-	-	-	-	-	317,538
<u>13,641</u>	<u>302,035</u>	<u>34,788</u>	<u>138,864</u>	<u>292,340</u>	<u>768,027</u>	<u>4,326,878</u>
<u>57,094</u>	<u>(126,039)</u>	<u>(26,814)</u>	<u>(124,750)</u>	<u>149,579</u>	<u>(128,024)</u>	<u>208,457</u>
(89)	(696)	3,960	130,345	-	133,609	(905)
(15,720)	116,813	19,197	(6,754)	(31,687)	97,569	761
<u>(15,809)</u>	<u>116,117</u>	<u>23,157</u>	<u>123,591</u>	<u>(31,687)</u>	<u>231,178</u>	<u>(144)</u>
41,285	(9,922)	(3,657)	(1,159)	117,892	103,154	208,313
<u>797,754</u>	<u>170,123</u>	<u>238,591</u>	<u>38,557</u>	<u>1,881,533</u>	<u>2,328,804</u>	<u>3,840,226</u>
<u>\$ 839,039</u>	<u>\$ 160,201</u>	<u>\$ 234,934</u>	<u>\$ 37,398</u>	<u>\$ 1,999,425</u>	<u>\$ 2,431,958</u>	<u>\$ 4,048,539</u>

State of Indiana  
 Combined Statement of Current Fund Revenues, Expenditures and Other Changes  
 Discretely Presented Component Units - Colleges and Universities  
 For the Fiscal Year Ended June 30, 2000  
 (amounts expressed in thousands)

	Current funds		Total current funds
	Unrestricted	Restricted	
<b>Revenues:</b>			
Student tuition and fees	\$ 908,947	\$ 2,978	\$ 911,925
Governmental appropriations	1,167,091	66,801	1,233,892
Federal, state and local grants and contracts	49,989	498,517	548,506
Auxiliary services	486,722	-	486,722
Sales and services	123,101	13,966	137,067
Investment and endowment income	50,050	10,801	60,851
Other gifts and grants	1,762	46,418	48,180
Other revenue	163,822	15,910	179,732
<b>Total revenues</b>	<b>2,951,484</b>	<b>655,391</b>	<b>3,606,875</b>
<b>Expenditures and mandatory transfers:</b>			
<b>Educational and General:</b>			
Instruction and departmental research activities	1,129,666	74,680	1,204,346
Research	58,384	235,701	294,085
Academic support	244,105	27,293	271,398
Operation and maintenance of plant	237,622	178	237,800
Student Aid, Scholarships and fellowships	84,763	153,431	238,194
Public service	51,914	171,589	223,503
Student services	108,148	3,435	111,583
Administrative and institutional support	241,190	1,630	242,820
Other expenditures	19,683	1,131	20,814
<b>Total educational and general</b>	<b>2,175,475</b>	<b>669,068</b>	<b>2,844,543</b>
<b>Auxiliary enterprises:</b>			
Expenditures	508,977	171	509,148
<b>Mandatory transfers</b>	<b>131,838</b>	<b>(5,804)</b>	<b>126,034</b>
<b>Total current fund expenditures and mandatory transfers</b>	<b>2,816,290</b>	<b>663,435</b>	<b>3,479,725</b>
<b>Other transfers and additions (deductions):</b>			
Excess (deficit) of restricted receipts over transfers to revenues	-	23,652	23,652
Transfers from (to) other funds	(101,848)	11,815	(90,033)
<b>Total other transfers and additions (deductions)</b>	<b>(101,848)</b>	<b>35,467</b>	<b>(66,381)</b>
<b>Increase (decrease) in fund balance</b>	<b>\$ 33,346</b>	<b>\$ 27,423</b>	<b>\$ 60,769</b>

The notes to the financial statements are an integral part of this statement.

STATE OF INDIANA

Notes to the Financial Statements and Required Supplementary Information  
June 30, 2000

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STATE OF INDIANA  
Notes to the Financial Statements  
June 30, 2000  
(schedule amounts are expressed in thousands )

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

As required by generally accepted accounting principles, these financial statements present the government (State of Indiana) and its component units (entities for which the government is considered to be financially accountable). Blended component units, although legally separate entities, are in substance part of the government's operations; data from these units are combined with data of the primary government. Discretely presented component units are reported in three separate columns, one column for the governmental fund type, one for proprietary fund types, and one for colleges and universities, in the combined financial statements. This is to emphasize that, as well as legally separate from the government, they also provide services to and benefit local governments and/or the citizens of the State of Indiana. Of the component units, the Housing Finance Authority has a December 31, 1999 year end.

*Blended Component Units.*

The following are blended component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. Although they are legally separate from the State, the units are reported as if they were part of the State because they provide services entirely or almost entirely to the State. All of these component units are audited by auditors other than the State Board of Accounts.

The Indiana Transportation Finance Authority (ITFA) was established to include the construction, reconstruction and improvement of all toll roads, toll bridges, state highways, bridges, and streets and roads. The Authority was further authorized to finance improvements related to an airport or aviation-related property or facilities including the acquisition of real property. The Authority is reported in various governmental funds and an enterprise fund.

The Recreational Development Commission was created to provide funds for projects involving the Department of Natural Resources' (DNR) properties. The five member commission includes the Treasurer of State, Director of DNR and three governor

appointees. The Commission is reported as an internal service fund.

The State Lottery Commission of Indiana is composed of five members appointed by the governor. Net proceeds from the Lottery are distributed to the State to be used to supplement teachers' retirement, pension relief, and the Build Indiana Fund. A portion of the Build Indiana Fund is then used to supplement Motor Vehicle Excise Tax Replacement. The Commission is reported as an enterprise fund.

The State Office Building Commission was created to issue revenue bond debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to construct certain correctional facilities. The Commission is reported as an internal service fund.

*Discretely Presented Component Units.*

The following are discretely presented component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. All component units, except colleges and universities, are audited by outside auditors.

The Indiana Development Finance Authority (IDFA) provides job-creating industrial development projects with access to capital markets where adequate financing is otherwise unavailable. The Authority is reported as a governmental fund.

The Indiana Secondary Market for Education Loans, Inc. (ISM) was formed at the request of the governor to purchase education loans in the secondary market. The unit is reported as a proprietary fund.

The Indiana Board for Public Depositories was established to ensure the safekeeping and prompt payment of all public funds deposited in Indiana banks. The Board, consisting of the Governor, Treasurer of State, Auditor of State, Chairman of the Commission for Financial Institutions, State Examiner of the State Board of Accounts and four members appointed by the Governor, provides insurance on public funds in excess of the \$100,000 Federal

Deposit Insurance Corporation limit. The unit is reported as a proprietary fund.

The Indiana Bond Bank, created in 1984, is controlled by a board composed of the Treasurer of State, Director of the Department of Financial Institutions and five appointees of the governor. The Bond Bank issues debt obligations and invests the proceeds in various projects of state and local governments. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority was created in 1978 for the purpose of financing residential housing for persons and families of low and moderate incomes. The Authority consists of the Director of the Department of Financial Institutions, the Director of the Department of Commerce, the State Treasurer and four persons appointed by the governor. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority and the

Indiana Bond Bank were determined to be significant for note disclosure purposes involving the discretely presented proprietary component units.

Each of the seven colleges and universities included in this report was established by individual legislation to provide higher education opportunities to the citizens of Indiana. The authority to administer the operations of each institution is granted to a separate board of trustees for each of the seven institutions. The number and makeup of the board of trustees of each college and university is prescribed by legislation specific for that institution. Four universities have nine member boards; two have ten member boards; Indiana Vocational Technical College has a thirteen-member board of trustees. Appointments to the boards of trustees are made by the governor and by election of the alumni of the respective universities. Purdue University and Indiana University were determined to be significant for note disclosure purposes involving the colleges and universities.

The financial statements of the individual component units may be obtained from their administrative offices as follows:

Indiana Transportation Finance Authority  
One North Capital Suite 320  
Indianapolis, IN 46204

Recreational Development  
Commission  
Government Center South, W256  
402 W. Washington Street  
Indianapolis, IN 46204

State Lottery Commission of Indiana  
Pan Am Plaza  
201 S. Capitol, Suite 1100  
Indianapolis, IN 46225

State Office Building Commission  
Government Center South, W478  
402 W. Washington Street  
Indianapolis, IN 46204

Indiana Development Finance  
Authority  
One North Capitol, Suite 320  
Indianapolis, IN 46204-2226

Secondary Market for Education Loans, Inc.  
8425 Woodfield Crossing Boulevard  
Suite 401  
Indianapolis, IN 46204

Board for Public Depositories  
101 W. Washington St., Suite 1301E  
Indianapolis, IN 46204

Indiana Bond Bank  
2980 Market Tower  
10 West Market St.  
Indianapolis, IN 46204

Indiana Housing Finance Authority  
115 West Washington Street  
Suite 1350, South Tower  
Indianapolis, IN 46204

Accounting Services  
1062 Freehafer Hall  
Purdue University  
West Lafayette, IN 47907-1062

Richard W. Schmidt  
Vice President - Business Affairs  
University of Southern Indiana  
8600 University Boulevard  
Evansville, IN 47712

Office of the Vice President  
and Chief Financial Officer  
Bryan Hall, Rm. 204  
Indiana University  
Bloomington, IN 47405-1202

Mark Husk  
Director of Budgeting and Accounting  
Indiana Vocational Technical  
College  
Indianapolis, IN 46206-1763

Phillip Rath  
Vice President-Financial  
Services  
Vincennes University  
1002 North 1st Street  
Vincennes, IN 47591

William A. McCune, Controller  
Administration Bldg., 103A  
2600 University Avenue  
Ball State University  
Muncie, IN 47305

Office of the Vice President  
for Planning and Budgets  
Parsons Hall, RM. 223  
Indiana State University  
Terre Haute, IN 47809

## **B. Measurement Focus, Basis of Accounting and Basis of Presentation**

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity

with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and

managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The government has the following fund types and account groups:

**Governmental funds** are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and related liabilities, and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Individual gross income taxes, corporation income taxes, sales taxes, motor fuel and motor carrier surcharge taxes, and alcoholic beverage taxes collected within 30 days after the end of the fiscal year are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and assistance awards are recorded at the time of receipt or earlier if the "susceptible to accrual" criteria is met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following fund types:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue funds* account for revenue sources that are legally restricted to expenditure for specific purposes (not expendable trusts or major capital projects).

The *debt service* fund accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

The *capital projects* funds account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

**Proprietary funds** are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements issued before November 30, 1989 and those issued after which do not contradict any previously issued GASB pronouncement in accounting and reporting for its proprietary operations. Proprietary funds include the following fund types:

*Enterprise funds* are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

*Internal service funds* account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

**Fiduciary funds** account for assets held by or on behalf of the government in a trustee capacity or as an agent on behalf of others.

The *expendable trust funds* are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

The *nonexpendable trust funds* and *pension trust funds* are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. Nonexpendable trust funds account for assets of which the principal may not be spent. The pension trust fund accounts for the assets of the government's employees pension plan.

The *agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds



are used to account for assets that the government holds for others in an agency capacity.

**Account Groups.** The *general fixed assets account group* is used to account for fixed assets not accounted for in proprietary or trust funds. The *general long-term debt account group* is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

## **C. Assets, Liabilities and Equity**

### **1. Deposits, Investments and Securities Lending**

For purposes of reporting cash flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity (generally three months or less from the date of acquisition). Cash and cash equivalents are stated at cost, which approximates fair value.

Cash balances of most State funds are commingled in general checking accounts and several special purpose banking accounts. The available cash balance not necessary beyond immediate need is pooled and invested. Interest earned from investments purchased with pooled cash is deposited in the general fund, except as otherwise provided by statute.

Investments and secured lending transactions are stated at fair value in accordance with GASB Statements 31 and 28. However, money market investments and participating interest-earning investment contracts that mature within one year of acquisition are reported at amortized cost. Fair value is determined by quoted market prices. In addition, the pension trust funds and securities lending transactions are stated at fair value in accordance with GASB Statements 25 and 28, respectively.

Indiana Code 5-13-9 authorizes the Treasurer to invest in deposit accounts issued or offered by a designated depository; securities backed by the full faith and credit of the United States Treasury; and repurchase agreements that are fully collateralized, as determined by the current market value computed on the day the agreement is effective, by interest-bearing obligations that are issued, fully insured or guaranteed by the United States or any U.S. government agency.

The Treasurer of State is authorized by statute to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository or (2) a

financial institution located either in or out of Indiana, having physical custody of securities, with a combined capital and surplus of at least \$10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50 percent of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Bond indentures of the Indiana Transportation Finance Authority authorize investments in obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, savings accounts, certificates of deposit (CDs) and repurchase agreements (repos) secured by government securities.

The State Office Building Commission trust indentures authorize obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, new Housing Authority bonds, savings and CDs, repos and reverse repos secured by government securities, investment agreements and commercial paper. Indiana Code permits investment in shares of management type investment trusts provided those trusts invest in securities of the types specified above.

Money held in the trust fund of the State Lottery Commission for the deferred payment of prizes may be invested by the Treasurer of State in annuities sold by an insurance company licensed to do business in Indiana (A.M. Best rating of A or equivalent) or in direct U.S. Treasury obligations.

Investments of the Recreational Development Commission will be kept in depositories designated as depositories for funds of the State as selected by the Commission, in the manner provided by IC 5-13-9.

The investments of the State's retirement systems are governed by separate investment guidelines. Investments which are authorized for the State Teacher's Retirement Fund include: U.S. Treasury and Agency obligations, corporate bonds/notes, repurchase agreements, mortgage securities, commercial paper, and bankers' acceptances. Investments which are authorized for the State Police Retirement fund include: U.S. Treasury and Agency obligations, common stocks, repurchase agreements, mortgage securities, and bankers acceptances. The remaining six retirement systems and the Pension Relief Fund are administered by the Public

Employees' Retirement Fund Board. The Board is required to diversify investments in accordance with prudent investment standards. Investment guidelines, issued by the Board, contain limits and goals for each type of investment portfolio, and specify prohibited transactions. These guidelines authorized investments of: U.S. Treasury and Agency obligations, corporate bonds/notes, common stocks, repurchase agreements, mortgage securities, commercial paper, and bankers' acceptances.

Certain deposits of State funds are entrusted to an outside agent to invest and disburse as per federal requirements or contract. The State Revolving Fund is held by a fiscal agent and included as a special revenue fund.

## **2. *Receivables and Payables***

Certain taxes collected during the month of July are accrued. These taxes include employee withholding and other individual income taxes, corporate income tax, sales tax, alcoholic beverage tax, motor fuel and motor carrier surcharge tax, inheritance tax, financial institution tax, and employer contributions to the Unemployment Compensation fund.

Due dates are as follows:

Sales, alcoholic beverage, gasoline and special fuel tax -- due by the 20th day after the end of the month collected.

Corporate, motor fuel and motor carrier surcharge tax -- due on or before the last day of the month immediately following each quarter of the calendar year.

Employee withholding tax -- depending on the amount of total withholding, due by the 20th day after the end of the month or quarterly.

Individual income tax -- estimates due by the 15th of the month immediately following each quarter or the calendar year.

Inheritance tax -- due eighteen months after the decedent's date of death.

Financial institutions tax -- due on or before the fifteenth day of the fourth month following the close of the taxpayer's taxable year.

Unemployment employers' contributions -- shall immediately become due and payable on the basis of wages paid or payable.

Tax refunds paid during the month of July are accrued as tax refunds payable as they are paid from current financial resources. These include individual, corporate and sales tax.

The State of Indiana does not collect property taxes, which are collected by local units of government; a minor portion is remitted to the state semiannually (June and December) for distribution to the State Fair Commission, Department of Natural Resources and Family and Social Services Administration.

## **3. *Interfund transactions***

The State has the following types of interfund transactions:

Quasi-external Transactions - Charges for services rendered by one fund to another that are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund.

Residual Equity Transfers - Nonroutine or nonrecurring transfers between funds are reported as additions to or deductions from fund equity.

Operating Transfers - Legally authorized transfers other than residual equity transfers are reported as operating transfers.

The types of assets and liabilities resulting from these transactions are:

Advances from / to - These are balances arising from the long-term portion of interfund transactions, including loans.

Interfund receivables / payables - These are balances arising from the short-term portion of interfund transactions.

Due from / to - These are balances arising in connection with quasi-external transactions or reimbursements. Balances relating to discretely presented component units are presented as 'Due from / to component units.'

## **4. *Inventories and Prepaid Items***

Inventories for the Inns & Concessions, State Lottery Commission, Institutional Industries and Administration Services Revolving are valued at cost; Toll Road inventories are valued at lower of cost or market. The costs of governmental fund-type inventories are recorded as expenditures when purchased. The first in/first out (FIFO) method is used for valuation of inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

### **5. Restricted Assets**

Certain assets of the following proprietary funds are classified as restricted assets because their use is completely restricted by bond indentures, contracts or statute.

*State Office Building Commission* - designated for construction projects or the liquidation of revenue bonds payable.

*Recreational Development Commission* - designated for the costs of expanding and, renovating, and improving recreational facilities at Indiana State parks.

*State Lottery Commission* - reserved for the prize pool of the Multi-State Lottery Association.

*Toll Roads* - held for future debt service, transportation improvements and construction.

*Indiana Housing Finance Authority* - restricted or pledged as provided by bond resolutions and indentures of the trust agreements.

*Indiana Bond Bank* - restricted to repayment of bonds and notes payable.

### **6. Fixed Assets**

Fixed assets used in governmental fund types with a cost of \$5,000 or greater are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets.

Public domain (infrastructure) general fixed assets (e.g., roads, bridges, highway land and other assets that are immovable and of value only to the government) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value or materially extend the life of the asset are not included in the general fixed assets account group or capitalized in the proprietary funds.

Property, plant and equipment in the proprietary and pension trust funds are recorded at cost or estimated historical cost. Property, plant and equipment donated to proprietary funds are recorded at their estimated fair value at the date of donation. Capital

grants to the Inns & Concessions (grants restricted by the grantor for the acquisition and/or construction of fixed assets) are recorded as contributed capital; since these contributions are from the primary government, depreciation expense for these assets is included with depreciation of other assets. Contributed capital is reduced by the cost of assets returned to the contributor.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated in the proprietary and similar trust funds using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Improvements other than buildings	10-20
Furniture, machinery and equipment	3-10
Software	3
Motor Pool Vehicles	10 ¢ / mile

### **7. Compensated Absences**

Full-time employees of the State of Indiana are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment. Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation of service, in good standing, employees will be paid for a maximum of thirty (30) unused vacation leave days.

No liability is reported for unpaid accumulated sick leave. Vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not

expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. Vacation leave is accrued when incurred in proprietary funds and reported as a fund liability.

#### **8. Long-Term Obligations**

Long-term debt of governmental funds is reported at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

#### **9. Fund Equity**

Reservations of fund balance represent those portions of fund balances that are legally segregated for a specific purpose or are not appropriable. In the accompanying balance sheet, reserves for encumbrances and tuition support are examples of the former. Reserves for intergovernmental loans and advances receivables are examples of the latter. The following is a brief description of each reserve and the purpose for which it was established:

*Reserve for Tuition Support* - established to recognize that the legislature has set aside money, as determined by the State Budget Agency, for paying the monthly distributions to local school units at the beginning of the succeeding fiscal year.

*Reserve for Encumbrances* - established to recognize money set aside out of one year's budget for goods and/or services ordered during that year that will not be paid for until they are received in a subsequent year.

*Reserve for Prepaid Items* - established to recognize payments made in advance of receipt of goods and services in an exchange transaction.

*Reserve for Advances* - established to recognize long-term loans and advances issued to other funds within this government and therefore not currently available for expenditure.

*Reserve for Intergovernmental Loans* - established to recognize that the legislature has set aside money to lend to local units of government for specific purposes. These amounts are loans to individual school corporations, cities, towns, counties and other governmental units. Additionally, the general fund lends money to nonprofit entities. All loans require review and approval of the Board of Finance prior to issuance.

*Reserve for Debt Service, Special Purposes*-- established to recognize that certain amounts have been set aside for debt service and for purposes specific to a particular component.

Designations of fund balance represent tentative management plans that are subject to change.

The proprietary funds' contributed capital represent equity acquired through capital grants and capital contributions from other funds.

#### **10. Memorandum Only -- Total Columns**

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. Budgetary Information

Legislation requires that the Governor submit a budget biennially to be adopted by the General Assembly for the ensuing two-year period. The budget covers the general fund and most special revenue funds, but excludes various special revenue funds that are not subject to appropriation pursuant to state law. Funds excluded are the Pension Relief Fund, the Transportation Finance Authority - Highway Revenue Bonds, and the State Revolving Fund. In addition there are various "Other Special Revenue Funds" excluded which are the Public Safety Death Benefit Fund, the Armory Board, the Recreation funds at state institutions and mental facilities, and the Transportation Finance Authority - Airport Facilities and Aviation Technology Funds. The General Assembly enacts the budget through passage of specific appropriations, the sum of which may not exceed estimated revenues. Appropriations for programs funded from special revenue funds may allow expenditures in excess of original appropriations to the extent that revenues collected exceed estimated revenues.

The original budget is composed of the budget bill and continuing appropriations. The budget bill is enacted as the Appropriations Act that the Governor may veto, subject to legislative override. Continuing appropriations report budgeted expenditures as equal to the amount of revenues received during the year plus any balances carried forward from the previous year as determined by statute. Except as specifically provided by statute, appropriations or any part thereof remaining unexpended and unencumbered at the close of any fiscal year will lapse and be returned to the fund from which it was appropriated.

The final budget is composed of budgeted amounts as adopted and as amended by supplemental appropriations or appropriation transfers that were necessary during the current year. The State Board of Finance, which consists of the Governor, Auditor of

State and Treasurer of State, is empowered to transfer appropriations from one fund of the State to another, with the exception of trust funds. The State Budget Agency may transfer, assign, and reassign almost any appropriation, except those restricted by law; but only when the uses and purposes of the funds concur. Excess general fund revenue is used to cover non-budgeted recurring expenditures and overdrafts of budgeted amounts at the end of the current year. Capital appropriations are initially posted to general government. As projects are approved by the State Budget Committee the appropriations are transferred to the function of government from which they are disbursed. These actions are considered supplemental appropriations, therefore, expenditures do not exceed appropriations for individual funds.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is maintained at the fund level by the State Budget Agency. When budgets are submitted for each fund center, certain recurring expenditures are not budgeted (medical service payments, unemployment benefits, tort claims) according to instructions from the State Budget Agency to the various agencies. The Budget Agency monitors all fund centers regularly in addition to monitoring excess general fund revenue that will be available at the end of the fiscal year to cover the non-budgeted, recurring expenditures.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities. Funds encumbered in the prior year are carried forward in the ensuing year's budget. The availability of unencumbered funds in the subsequent year is dependent upon the legislative or administrative controls established when the fund center was originated.

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### B. Budget/GAAP Reconciliation

The cash basis of accounting (budgetary basis) is applied to each budget. The budgetary basis differs from GAAP. The major differences between budgetary (non-GAAP) basis and GAAP basis are:

	General Fund	Special Revenue Funds
Excess of revenues and other financing sources over (under) expenditures and other financing uses (budgetary basis)	\$ (226,255)	172,374
Adjustments necessary to convert the results of operations on a budgetary basis to a GAAP basis are:		
Revenues are recorded when earned (GAAP) as opposed to when cash is received (budgetary)	2,181	(17,156)
Expenditures are recorded when the liability is incurred (GAAP) as opposed to when payment is made (budgetary)	2,783	5,898
Funds not subject to legally adopted budget	-	122,919
Excess of revenues and other financing sources over (under) expenditures and other financing uses (GAAP basis)	<u>\$ (221,291)</u>	<u>\$ 284,035</u>

### C. Deficit Fund Balance/Retained Earnings

At June 30, 2000, various funds had deficit fund balance/retained earnings caused by temporary cash overdrafts from pooled cash and investments and the posting of accruals to the balance sheet. Temporary cash overdrafts are reported as an interfund payable

to the general fund. An exception to this is the Bureau of Motor Vehicles Commission fund which has a deficit equity balance of \$56.8 million. \$53.2 million of this was caused by long-term expenditures in excess of fund revenues. The funds used to cover the \$53.2 million deficit are reported as an Advance from the Motor Vehicle Highway Fund.

Fund	Overdraft from pooled cash	Accrual deficits
<b>Special revenue funds:</b>		
State and Federal Welfare Assistance	-	(3,104)
Medicaid Assistance	(5,719)	(208,135)
Health and Environmental Programs	-	(1,413)
<b>Internal service funds:</b>		
State Office Building Commission	-	(1,152)
Recreational Development Commission	-	(160)
State Police Benefit Fund	-	(1,262)
State Employee Disability Fund	-	(2,533)
State Employee Health Insurance Fund	-	(1,743)
<b>Expendable trust funds:</b>		
Abandoned Property Fund	-	(3,206)

### III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

#### A. Deposits, Investments and Securities Lending

The deposits with financial institutions for the primary government and its discretely presented component units at year end were entirely insured by federal depository insurance, state depository insurance, or collateralized securities held by the State or by an agent in the State's name.

Investment are categorized into these three categories of credit risk: (1) Insured or registered, or securities held by the State (or its component unit) or

an agent in the State's or unit's name. (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's or unit's name. (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's or unit's name.

Blended component units that are included in the financial statements as described in Section 1(A) account for \$379.7 million of the primary government's total investments included in these totals.

<u>Primary Government</u>				
	Category			Fair Value
	1	2	3	
Commercial paper				
Not on securities loan	\$ 41,511	\$ 140,668	\$ 136,978	\$ 319,157
Corporate debt/equity securities				
Not on securities loan	10,616,949	159,110	424,539	11,200,598
On securities loan	-	134,754	49	134,803
Foreign bonds				
Not on securities loan	94,108	-	-	94,108
Repurchase agreements				
Not on securities loan	1,018	270,587	621,232	892,837
On securities loan	-	242,684	-	242,684
US Treasury & agency obligations				
Not on securities loan	1,665,826	586,501	382,355	2,634,682
On securities loan	19,932	153,035	430,706	603,673
Mortgage securities				
Not on securities loan	1,287,990	1,781	20,000	1,309,771
On securities loan	-	10,000	180	10,180
<b>Totals</b>	<b>\$ 13,727,334</b>	<b>\$ 1,699,120</b>	<b>\$ 2,016,039</b>	<b>17,442,493</b>
Investments - not categorized				
Investments held by broker-dealers under securities loans				
Equity securities				443,386
Corporate bonds				178,698
US Treasury & agency obligations				4,807,282
Foreign bonds				9,753
Mortgage securities				7,289
Securities lending S-T cash collateral investment pool				3,845,928
Mutual funds				948,369
Annuity/investment contracts				502,118
Other				2,309
<b>Total primary government</b>				<b>\$ 28,187,625</b>

The categories of investments for the Significant Discretely Presented Component Units is as follows:

<u>Significant Discretely Presented Component Units</u>				
	Category			Fair
	1	2	3	Value
Commercial paper				
Not on securities loan	\$ 27,882	\$ -	\$ -	\$ 27,882
Corporate debt/equity securities				
Not on securities loan	352,298	4,084	-	356,382
Repurchase agreements				
Not on securities loan	30,200	2,378	-	32,578
On securities loan	122,555	-	-	122,555
US Treasury & agency obligations				
Not on securities loan	584,957	23,411	776	609,144
On securities loan	2,416	-	-	2,416
Totals	<u>\$ 1,120,308</u>	<u>\$ 29,873</u>	<u>\$ 776</u>	1,150,957
Investments—Not Categorized				
Guaranteed investment contracts and other				136,377
Investments held by broker-dealers under securities loans				
Corporate bonds				12,187
US Treasury & agency obligations				23,360
Securities lending S-T cash collateral investment pool				36,315
Securities lending S-T non-cash collateral investment pool				<u>103,425</u>
Total significant discretely presented component units				<u>\$ 1,462,621</u>

State statutes and policies permit the State to lend securities to broker-dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The State's custodial banks manage the securities lending programs and receive securities or cash as collateral. The types of securities lent during the year may include U.S. Treasury and agency obligations, corporate bonds/notes, and foreign bonds. Collateral securities and cash are initially pledged at 102 percent of the market value of the securities lent. Generally, there are no restrictions on the amount of assets that can be lent at one time, except for the Public Employees Retirement Fund and the State Teachers Retirement

Fund which allow no more than 40% be lent at one time. The collateral securities cannot be pledged or sold by the State unless the borrower defaults, but cash collateral may be invested. At year-end, the State had no credit risk exposure to a borrowers because the amount the State owes the borrowers exceed the amounts the borrowers owe the State. Cash collateral is generally invested in securities of a longer term with the mismatch of maturity's generally 0-15 days. The contracts with the State's custodians requires them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the funds for income distributions by the securities' issuers while the securities are on loan.



**B. Interfund Transactions**

The composition of interfund balances as of June 30, 2000 is as follows:

<u>Due From and Due To Other Funds</u>					
	<u>Due from other funds</u>	<u>Due to other funds</u>		<u>Due from other funds</u>	<u>Due to other funds</u>
General fund:			Internal service funds (continued):		
Internal service funds:			Capital projects funds:		
Institutional Industries	\$ 159	\$ 1,322	Post War Construction	1	-
Administrative services revolving fund	-	913	Expendable trust funds:		
Total general fund	159	2,235	Abandoned Property Fund	1	-
Special revenue funds:	-	-	Internal service funds:		
Debt service funds:			Administrative Services Revolving	3	3
Transportation Finance Authority:			Institutional Industries	3	3
Aviation Technology bonds	-	318	Pension trust funds:		
Airport Facilities bonds	-	3,068	Public Employees Retirement Fund	40	69
Internal service funds:			State Teachers Retirement Fund	79	-
Institutional industries	-	674	Total internal service funds	7,252	242
Administrative services revolving fund	-	4,217	Trust and agency funds:		
Pension trust funds			Special revenue funds		
Public Employees Retirement Fund	-	951	Pension Relief	885	-
Total special revenue funds	-	9,228	Other	66	-
Debt service funds:			Internal service funds:		
Special revenue funds:			Institutional Industries	8	-
Other	3,386	-	Administrative services revolving fund	-	120
Total debt service funds	3,386	-	State Employee Death Benefit	69	-
Internal service funds:			Pension trust:		
General fund	2,235	159	Public Employees' Retirement Fund	4,497	9,085
Special revenue funds:			Teachers' Retirement Fund	4,951	4,497
County welfare administration	1,064	-	1977 police officers' and firefighters'	2,993	-
Motor Vehicle Highway Fund	1,145	8	Excise Police and Conservation Officers	335	-
State and Federal Welfare Assistance	6	-	Judges Retirement	452	-
Bureau of Motor Vehicles Commission	34	-	Prosecuting Attorneys' Retirement	170	-
Health and environmental programs	54	-	Defined Benefit	184	-
State Highway Department	138	-	Total trust and agency funds	14,610	13,702
Patients Compensation	1	-	Total due from / to	\$ 25,407	\$ 25,407
Other	2,448	-			

<u>Component units</u>					
	<u>Due from primary government</u>	<u>Due to component unit</u>		<u>Due from primary government</u>	<u>Due to component unit</u>
Special revenue funds:			Discretely presented component units:		
Discretely presented component units:			Special revenue funds:		
Indiana Bond Bank	\$ -	\$ 551,660	State Revolving Fund	551,660	-
Total special revenue funds	-	551,660	Total discretely presented component units	551,660	-
			Total due from / to	\$ 551,660	\$ 551,660

The composition of interfund balances as of June 30, 2000 is as follows: (continued)

Advances To and Advances From Other Funds					
	Advances to other funds	Advances from other funds		Advances to other funds	Advances from other funds
General fund:			Enterprise funds:		
Special revenue funds:			Capital projects funds:		
Other	\$ 2,408	\$ -	Interstate Bridge Fund	865	2,334
			Internal service funds:		
Total general fund	2,408	-	Recreational Development Commission	-	300
			Total enterprise funds	865	2,634
Special revenue funds:			Internal service funds:		
General fund	-	2,408	Special revenue funds:		
Special revenue funds:			Other	-	500
Motor Vehicle Highway Fund	53,213	-	Enterprise funds:		
Bureau of Motor Vehicles Commission	-	53,213	Inns and concessions	300	-
Other	698	698	Total internal service funds	300	500
Internal service funds:					
Recreational Development Commission	500	-	Total advances	\$ 60,318	\$ 60,318
Total special revenue funds	54,411	56,319			
Capital projects funds:					
Enterprise funds:					
Toll bridges	2,334	865			
Total capital projects funds	2,334	865			

Interfund receivables and payables					
	Interfund receivable	Interfund payable		Interfund receivable	Interfund payable
General fund:			Enterprise funds:		
Special revenue funds:			Special revenue funds:		
Medicaid Assistance	\$ 5,719	\$ -	Pension Relief Fund	-	7,500
Federal Food Stamp Program	4,412	-	Capital projects funds:		
Total general fund	10,131	-	Build Indiana Fund	-	25,782
			Pension trust funds:		
Special revenue funds:			Teachers' Retirement Fund	-	7,500
General fund	-	10,131	Total enterprise funds	-	40,782
Enterprise funds:			Trust and agency funds:		
State Lottery Commission	7,500	-	Enterprise funds:		
Total special revenue funds	7,500	10,131	State Lottery Commission	7,500	-
Capital projects funds:			Total trust and agency funds	7,500	-
Enterprise funds:					
State Lottery Commission	25,782	-			
Total capital projects funds	25,782	-	Total interfund receivable / payable	\$ 50,913	\$ 50,913

A summary of interfund operating transfers for the year ended June 30, 2000 is as follows:

	Operating transfers in	Operating transfers (out)	Operating transfers in - from primary government	Operating transfers (out) to primary government	Operating transfers in - from component units	Operating transfers (out) to component units	Net transfers
Governmental funds:							
General fund	\$ 1,991,124	\$ (2,779,518)	\$ -	\$ -	\$ -	\$ (13,478)	\$ (801,872)
Special revenue funds	4,011,520	(3,258,712)	-	-	2,400	-	755,208
Debt service funds	55,703	(121)	-	-	-	-	55,582
Capital projects funds	364,262	(264,705)	-	-	-	-	99,557
Proprietary funds:							
Enterprise Funds	-	(164,405)	-	-	-	-	(164,405)
Internal Service Funds	19,372	(20,674)	-	-	-	-	(1,302)
Trust and agency funds:							
Expendable Trust and Agency	2,419	(31,454)	-	-	1,724	-	(27,311)
Non expendable Trust	47,087	(1,897)	-	-	-	-	45,190
Pension Trust	32,804	(2,805)	-	-	-	-	29,999
Discretely presented component units:							
Governmental	-	-	13,478	-	-	-	13,478
Proprietary	-	-	-	(4,124)	-	-	(4,124)
	\$ 6,524,291	\$ (6,524,291)	\$ 13,478	\$ (4,124)	\$ 4,124	\$ (13,478)	\$ -

**C. Taxes Receivable/Tax Refunds Payable**

Taxes Receivable/Tax Refunds Payable as of year end, including the applicable allowances for uncollectible accounts, are as follows:

	General fund	Special revenue funds	Capital projects funds	Expendable trust	Total
Sales taxes	\$ 179,996	\$ 122,186	\$ -	\$ -	\$ 302,182
Individual income taxes	388,117	-	-	-	388,117
Corporate taxes	47,287	-	-	-	47,287
Motor fuel taxes	-	58,791	-	-	58,791
Alcoholic beverage taxes	1,281	-	1,459	-	2,740
Motor carrier surcharge taxes	-	6,765	-	-	6,765
Inheritance taxes	30,870	-	-	-	30,870
Financial institution taxes	-	15,627	-	-	15,627
Unemployment - employers' contributions	-	-	-	20,147	20,147
<b>Total taxes receivable</b>	<b>\$ 647,551</b>	<b>\$ 203,369</b>	<b>\$ 1,459</b>	<b>\$ 20,147</b>	<b>\$ 872,526</b>
<b>Tax refunds payable</b>	<b>\$ 25,696</b>	<b>\$ 2</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 25,698</b>

**D. Fixed Assets**

Activity in the general fixed assets account group for the State for the year ended June 30, 2000, was as follows. Figures include assets with an individual cost of \$5,000 or more. Infrastructure assets are not included.

	Balance, July 1, As restated	Additions	Deletions	Balance, June 30
Land	\$ 124,072	\$ 1,682	\$ 173	\$ 125,581
Buildings and improvements	1,052,743	11,047	9,254	1,054,536
Furniture, machinery, and equipment	375,156	31,669	22,711	384,114
<b>Total general fixed assets</b>	<b>\$ 1,551,971</b>	<b>\$ 44,398</b>	<b>\$ 32,138</b>	<b>\$ 1,564,231</b>

The following is a summary of proprietary fund type fixed assets at June 30, 2000. Infrastructure assets are included as they are presented on the respective balance sheets.

	Enterprise funds	Internal service funds
Buildings, land and improvements	\$ 116,257	\$ 689,507
Infrastructure	460,061	-
Furniture, machinery, and equipment	45,498	12,410
less: accumulated depreciation	(406,407)	(121,271)
Construction in progress	21,400	62,228
<b>Total fixed assets</b>	<b>\$ 236,809</b>	<b>\$ 642,874</b>

Fixed assets of the significant discretely presented component units include \$2,697 million for Indiana University, less accumulated depreciation of \$1,309 million; \$1,573 million for Purdue University, less accumulated depreciation of \$714 million.

#### E. Leases

##### Operating Leases

The State leases building and office facilities and other equipment under non-cancelable operating leases. Total payments for such leases with aggregate payments of \$5,000 or more were \$37.2 million for the year ended June 30, 2000. A table of

future minimum lease payments (excluding executory costs) is presented below.

##### Capital Leases

The State has entered into various lease agreements with aggregate payments of \$5,000 or more to finance the acquisition of buildings, land and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the general fixed assets account group. The related lease obligations are reported in the general long-term debt account group.

The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2000 and the assets acquired through capital lease during the fiscal year were as follows:

Future minimum lease payments				
Year ending June 30,			Capital leases	
			General Long-Term Debt Account Group	Proprietary funds
	Operating leases			
2001	\$ 31,672	\$ 1,777	\$ 106	
2002	25,229	1,355	69	
2003	19,521	1,030	56	
2004	12,614	467	16	
2005	8,501	250	-	
Thereafter	59,477	-	-	
Total minimum lease payments (excluding executory costs)		\$ 157,014	\$ 4,879	\$ 247
Less:				
Amount representing interest			(467)	(20)
Present value of future minimum lease payments			\$ 4,412	\$ 227
<b>Assets acquired through capital lease</b>				
Machinery and equipment			8,063	3,652
less accumulated depreciation			-	(3,432)
			\$ 8,063	\$ 220

The Indiana Housing Finance Authority, a discretely presented component unit, has future obligations under an operating lease which total \$1.6 million.

Purdue University, a significant discretely presented component unit, also is the lessee for capital leases totaling \$44.1 million, of which \$12.2 million represents interest; Indiana University's liability for capital leases is \$2.0 million, of which \$.3 million represents interest.

Indiana University has future obligations under operating leases of \$7.2 million.

#### **F. Long-Term Debt**

Long-term debt of the general long-term debt account group consists of revenue bond obligations of the Indiana Transportation Finance Authority Highway Revenue Bonds, Airport Facility Bonds, and Aviation Technology Bonds. Other long term obligations of the general long term debt account group include capital lease obligations of governmental funds as presented in Section III(E) and compensated absence obligations.

Long-term debt of the proprietary funds consists of revenue bonds issued by the State Office Building Commission, the Recreational Development Commission, and the Indiana Transportation Finance Authority Toll Roads. It also includes the non-current portion of prize liability accrued by the Indiana State Lottery Commission. These entities have been established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions.

Long-term debt of the significant discretely presented component units consists of bonds issued or backed by the Indiana Development Finance Authority, the Indiana Housing Finance Authority, the Indiana Bond Bank, Indiana University, and Purdue University. As with the entities in the proprietary funds, these entities have the separate legal authority to finance certain essential governmental functions.

Revenue bonds are issued by entities established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions. Income from the acquired or constructed assets is used to pay debt service.

#### *General Long-Term Debt Account Group:*

Indiana Transportation Finance Authority (ITFA) Highway Revenue Bonds – In 1988 the Transportation Finance Authority was granted the power to construct, acquire, reconstruct, improve and extend Indiana highways, bridges, streets and roads (other than the East-West Toll Road) from proceeds of highway revenue bonds issued by the Authority. The bonds are paid solely from and secured exclusively by the pledge of revenues from leases to the Indiana Department of Transportation of completed highway revenue bond projects. Bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

On March 26, 1993, the Authority refunded a portion of their 1988A & B Series Bonds. The amount of defeased debt still outstanding, but removed from the General Long-Term Debt Account Group as of June 30, 2000, was \$93.6 million.

On December 11, 1996, the Indiana Transportation Finance Authority issued Highway Refunding Bonds Series 1996B in the amount of \$27,110,000 with interest rates from 3.85% to 6%. The refunding debt was used to refund the Series 1992A bonds. A portion of the proceeds was deposited in an escrow fund. As of June 30, 2000, the amount of defeased debt still outstanding but removed from the General Long Term Debt Group was \$24.8 million.

Indiana Transportation Finance Authority (ITFA) Airport Facilities Revenue Bonds – In 1991, the General Assembly authorized, under Indiana Code 8-21-12, to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds. Any bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State

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within the meaning or application of any constitutional provision or limitation.

On February 11, 1992, the Transportation Finance Authority issued bonds in the principal amount of \$201.3 million. Additionally, Series 1995A parity bonds in the amount of \$29.7 million were issued May 15, 1995. The bonds were issued to finance certain improvements related to the United Airlines maintenance facility at Indianapolis International Airport. These bonds are payable from rental revenues as may be appropriated by the Indiana General Assembly for that purpose.

On December 1, 1996, the Authority issued Airport Facilities Lease Revenue Refund Bonds Series 1996A in the amount of \$137.7 million with interest rates from

4.5% to 6%. A portion of the proceeds was deposited in an escrow fund to refund a portion of the 1992 issue. The amount of defeased debt still outstanding but removed from the General Long Term Debt Account Group at June 30, 2000 was \$127 million.

#### Indiana Transportation Finance Authority (ITFA) Aviation Technology Center Lease Bonds, Series A -

On November 1, 1992, the Indiana Transportation Finance Authority issued Aviation Technology Center Lease Bonds - Series A, in the principal amount of \$11.6 million. These bonds were issued to finance the costs of construction and equipping a new aviation technology center at Indianapolis International Airport.

These bonds are payable from lease revenues as may be appropriated from the Indiana General Assembly for that purpose.

Changes in Long-Term Liabilities: During the year ended June 30, 2000, the following changes occurred in liabilities reported in the general long-term debt account group.

	Balance, July 1, as Restated	Accretions and Additions	Reductions	Balance, June 30
Compensated absences	\$ 100,565	\$ 60,697	\$ 51,922	\$ 109,340
Revenue bond debt	719,812	3,109	17,905	705,016
Capital leases	3,337	2,729	1,654	4,412
<b>Totals</b>	<b>\$ 823,714</b>	<b>\$ 66,535</b>	<b>\$ 71,481</b>	<b>\$ 818,768</b>

#### *Proprietary Funds:*

Indiana State Office Building Commission - The Indiana State Office Building Commission (SOBC) was created as a public body corporate and politic by the 1953 Acts of the Indiana General Assembly. The SOBC is authorized to construct and equip such facilities as the General Assembly may authorize through the issuance of revenue bonds. The SOBC has issued debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to finance acquisition costs (including design and construction costs) of the Indiana Museum, Miami Correctional Facility, Pendleton Juvenile Correctional Facility, New Castle Correctional Facility and the Replacement Evansville State Hospital. The facilities are rented to the Indiana Department of Administration (DOA) under use and occupancy agreements.

Bonds issued by the SOBC are obligations only of the SOBC and are payable solely from and secured exclusively by the pledge of the income of the

applicable facility financed. The SOBC has no taxing authority and rental payments by the DOA are subject to and dependent upon appropriations made for such purposes by the General Assembly.

On September 8, 1993, the Commission issued \$178.4 million in advance refunding Capital Complex Revenue Bonds (Series 1993 A, B and C Bonds). This series of bonds was issued to fully refund in advance of their stated maturity dates certain Capital Complex Revenue Bonds from the 1986, 1987, 1988 and 1990 A, B and C Series. On January 1, 1998, Facilities Revenue Refinance Bonds Series 1998A in the amount of \$93 million with interest rates from 3.9% to 5.125% were issued to fully refund in advance of their stated maturity dates the 1991 Series Bonds. The net proceeds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service for the refunded bonds. At June 30, 2000, the Commission had a total of \$275.9 million defeased bonds outstanding.

On February 18, 1999, the Commission amended and restated the Hoosier Notes credit agreement dated February 18, 1998 which provides up to \$150 million of commercial paper to provide interim financing for the acquisition and construction of certain facilities. Outstanding borrowings under this facility at June 30, 2000 were \$123 million and bears interest at the London Interbank Offered Rate (LIBOR) plus .25% or 70% of the bank's prime lending rate. The interest rate in effect at June 30, 2000 was 4.4%.

On June 1, 2000 the Commission issued the Series 2000 B Bonds to refund on a current basis a portion of the Commissions' outstanding Series 1990 D Bonds. The 2000 B Bonds bear interest that fluctuates based on the market rate, not to exceed 10% per annum. The net proceeds of \$42.7 million were used to purchase U.S. Government securities. These securities, plus \$6.6 million of restricted assets released, were deposited in an irrevocable trust with an escrow agent to provide for the July 1, 2000 refunding on a current basis a portion of the Series 1999 D Bonds. While the Commission believes an economic gain and lower cash flow requirements will result from the refunding, the amount of such benefits, if any, is not presently determinable because the interest rates fluctuate based on the market rate.

Recreational Development Commission – The Recreational Development Commission was created in 1973 by an Act of the General Assembly which is now I.C 14-14-1, for the purpose of providing funds for projects involving Department of Natural Resources' properties. The Commission consists of five members. The Treasurer of State and the Director of the Department of Natural Resources (DNR) are members by virtue of their offices and the other three members are appointed by the Governor.

In 1987 and 1990 revenue bonds were issued to provide funds to renovate and equip Abe Martin Lodge and Turkey Run Inn and to construct cabins at Harmonie and Whitewater State Parks. Lease agreements with the Indiana Department of Natural Resources State Park Inns are used to repay the bond issues. The buildings and land will then be deeded back to the State of Indiana.

In 1994, the Commission executed three Escrow Deposit Agreements with bank trustees for the purpose of refunding revenue debentures issued in 1987 and 1990. A portion of the proceeds from the 1994A Revenue Bonds was used to fund the redemption.

On January 1, 1997, the Commission issued \$6.6 million of Series 1997 Revenue Bonds with interest rates from 4% to 5.35% to finance a golf course at Ft. Harrison State Park.

Indiana Transportation Finance Authority – East-West Toll Roads – The Indiana Transportation Finance Authority (ITFA) is the successor to the Indiana Toll Finance Authority created in 1983 pursuant to IC 8-9.5. ITFA is a body both corporate and politic and, although separate from the State, the exercise by ITFA of its powers constitutes an essential government function. ITFA's duties consist of the construction, reconstruction, improvement, maintenance, repair and operation of all toll roads and bridges in the state. To exercise its duties, ITFA may issue bonds under statute.

Bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of the revenues from the leases to the Indiana Department of Transportation of the projects financed out of the bond proceeds and the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of the any constitutional provision or limitation.

During September 1985, ITFA issued \$256.9 million of Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1985 for the refunding of the outstanding portion of the Indiana Toll Commission East-West Toll Road Revenue Bonds, 1980 Series. At June 30, 2000, the principal amount of the Series 1980 bonds, which have been defeased in substance, was \$214.1 million.

During March 1987, ITFA issued \$184.7 million of Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1987 to provide for the early redemption of an aggregate of \$144.2 million of the Series 1985 bonds. At June 30, 2000, the principal amount of the Series 1985 bonds, which have been defeased in substance, was \$144.2 million.

During October 1993, ITFA issued \$76 million of Indiana Transportation Finance Authority Taxable Toll Road Lease Revenue Refunding Bonds, Series 1993 to provide resources to purchase U.S. government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of a portion of the outstanding 1985 Series. At June 30, 2000, the principal amount of defeased debt outstanding was \$66.9 million.

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During October 1996, ITFA issued \$134.8 million of Series 1996 Revenue Refunding Bonds with interest rates from 3.9% to 6.5%. The proceeds were placed

in trust for the purpose of generating resources for future debt service payments on the Series 1987 Bonds. At June 30, 2000, the principal amount of defeased debt outstanding was \$127.1 million.

Revenue bonds outstanding at June 30, 2000 (less unamortized discount of \$19.6 million) are as follows.

	Interest rates	Amount
<b>General Long-Term Debt Account Group</b>		
ITFA Highway Revenue Bonds	4.25% - 7.25%	\$ 471,776
ITFA Airport Facilities Bonds	4.50% - 6.50%	223,220
ITFA Aviation Technology Center Bonds	5.65% - 6.50%	10,020
		<u>\$ 705,016</u>
<b>Proprietary funds:</b>		
Indiana State Office Building Commission	2.75% - 10.00%	\$ 606,094
Recreational Development Commission	3.60% - 6.13%	24,188
ITFA Toll Roads	3.90% - 9.50%	242,053
		<u>\$ 872,315</u>

State Lottery Commission Accrued Prize Liability – Accrued prize liability includes an estimate of unclaimed scratch-off and on-line game winners and future television game show prizes awarded on shows committed to as of June 30, 2000, as well as installment amounts payable to past scratch-off, on-line and game show winners. Installment prizes

payable are recorded at a discount based on interest rates that range from approximately 5% to 8% and reflect interest earned by investments held to fund related liabilities. At June 30, 2000, the accrued prize liability was \$105.2 million including \$42.4 million in current prize liability and \$62.8 million in long-term prize liability.

Revenue bond debt service and accrued prize liability requirements to maturity, including \$922.0 million of interest, are as follows:

Fiscal year ending June 30,	General Long- Term Debt Account Group	Proprietary funds	Total
2001	\$ 55,729	\$ 75,898	\$ 131,627
2002	59,850	86,347	146,197
2003	60,220	93,289	153,509
2004	60,598	92,902	153,500
2005	60,363	92,245	152,608
Thereafter	<u>799,455</u>	<u>1,100,577</u>	<u>1,900,032</u>
Total	<u>\$ 1,096,215</u>	<u>\$ 1,541,258</u>	<u>\$ 2,637,473</u>



Long-Term Debt of the Significant Discretely Presented Component Units is as follows:

Indiana Development Finance Authority – The Indiana Development Finance Authority (IDFA) was established by the General Assembly, in 1990, as a body corporate and politic to independently exercise essential public functions. IDFA's primary purpose is to provide job-creating industrial development projects with access to capital markets where adequate financing is not otherwise available.

IDFA is a party to a reimbursement agreement with Qualitech Steel Corporations (Qualitech) and a bank relating to the \$33.1 million Indiana Development Authority Taxable Variable Rate Demand Economic Development Revenue Bonds Series 1996. Qualitech filed a petition for relief under Chapter 11 of the Bankruptcy Code. As a result, IDFA could be obligated to pay the outstanding balance of the bond issue, which would result in recognition of losses in future years. The amount of this contingency is the outstanding principal of the Bonds totaling \$28.7 million as of September 1, 2000. Debt service reserve funds aggregating \$3.99 million are currently held in trust and may be available to reduce the contingent obligation

For more information, see Note IV E. Contingencies and Commitments – Loss from Reimbursement Agreement.

Indiana Housing Finance Authority -- In 1978, the Indiana Housing Finance Authority (the Authority) was granted the power to issue bonds for the purpose of financing residential housing for persons and families of low and moderate incomes. These bonds are special obligations of the authority and are payable solely from the revenues and assets pledged. Various series of bonds have been issued with an original amount of \$1,273 million with interest rates ranging from 3.90% to 9.375%. The total outstanding debt associated with these bond issues as of December 31, 1999 was \$793 million.

During 1993, the Authority used three bank loans to refinance or redeem bonds in the 1983A, B, and C Series and the 1984A and B Series Single Family Mortgage Indenture Series. The principal amount of these loans totaled \$31.8 million. The Authority repaid the 1983A and B bank loan during 1998 and the 1983C and 1984A and B bank loans during 1999.

During 1996, the Authority used one new bank loan to redeem all of the bonds from the General Fund Collateralized Mortgage Obligation Series A. The

principal amount of this loan totaled \$12.6 million as of December 31, 1999.

During 1999, GNMA Mortgage Program Fund redeemed the remaining bonds on the 1989 Series A, through an optional redemption, at a premium of 103%, resulting in a premium paid of \$428,100. This transaction resulted in deferred debt issuance cost of \$162,469.

In December 1999, the Multi-Unit Mortgage Program Fund issued 1999 Bond Series A and B with a face value of \$18.2 million and interest rates varying from 5.40% to 6.88%. The proceeds of the bonds are currently being used to finance the acquisition and rehabilitation of five HUD 236 properties located throughout the state of Indiana.

During 1999 the Single Family Mortgage Program Fund issued 1999 Bond Series with a face value of \$162.6 million and interest rates varying from 3.90% to 7.09%. The Single Family Mortgage Program Fund provides for the purchase of mortgage loans made to eligible borrowers for owner occupied housing.

The Indiana Housing Finance Authority borrowed \$35.0 million during 1999 against its line of credit. The proceeds from this borrowing were at an interest rate of 5.408%

During 1999, the Multi-Unit Mortgage Program Fund redeemed the remaining bonds on the 1985 Series A, through an optional redemption. The borrower in this series opted to prepay the mortgage loans. The terms of the mortgage note required the borrower to pay the outstanding principal of the bonds plus accrued interest. As the total outstanding principal and accrued interest exceeded the remaining balance of the mortgage loan, the Authority recognized \$1.5 million in gain from early extinguishment of the bonds. This transaction resulted in deferred debt issuance cost and original issuance discount of \$211,750 and \$70,328 respectively.

Indiana Bond Bank – The Bond Bank is an instrumentality of the State of Indiana but is not a state agency and has no taxing power. It has separate corporate and sovereign capacity and is composed of the Treasurer of State (who serves as Chairman of the Board, ex officio), the Director of the Department of Financial Institutions (who serves as director, ex-officio), and five directors appointed by the Governor. The Bond Bank is authorized to buy and sell securities for the purpose of providing funds to Indiana qualified entities. To achieve its purpose, the Bond Bank has issued various bonds and notes

payable. The bonds and notes payable were issued under indentures of trust. Each indenture requires the maintenance of debt service reserve accounts. Total outstanding debt as of June 30, 2000 was \$1,321 million with interest rates ranging from 3.10% to 7.40%. Assets held in debt service reserve accounts are included in cash, cash equivalents, and investments and amounted to \$27.6 million.

Special Program Bonds Series 1985A, 1989A, 1989B, 1991B and 1991A are considered to have been defeased and have been removed from the financial statements and in total have remaining outstanding principal balances of approximately \$98 million at June 30, 2000.

In July, 1999 the Bond Bank issued Advanced Funding Program Series AF 1999 B bonds with a face amount of \$8.0 million and an interest rate of 3.54%. In February, 2000 the Bond bank issued Advanced Funding Program Series AF 2000 A bonds with a face amount of \$364.8 million and an interest rate of 4.75%.

In January, 2000 the Bond Bank issued Special Program Bonds Series 2000 A with a face amount of \$64.4 million at interest rates varying from 4.45% to 6.50%.

In September, 1999 the Bond Bank issued State Revolving Series 1999 bonds with a face amount of 7.0 million and an interest rate of 5.0%. In April 2000 the Bond Bank issued State Revolving Series 2000 A with a face amount of \$143.6 million at interest rates varying from 4.500% to 5.875%.

In January 2000, the Bond Bank issued its Special Program Series 2000A Refunding Bonds in the amount of \$32,860,000. Proceeds from this issue and certain related investments were used to defease the Special Program Bonds Series 1985B, 1986B, 1986C, 1986E, 1987A, 1989C, 1990A, 1990B, and Special Loan Program Bonds Series 1988A, 1988B, 1988C, and 1989A in entirety. The difference between the amount deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased debt and the net carrying amount of the defeased debt resulted in a deferred cost on defeasance of \$1.2 million, which is being amortized over the life of the Special Program Series 2000A Refunding Bonds. However, the issuance of the Special Program Series 2000A Refunding Bonds will reduce the Bond Bank's aggregate debt service payments by \$17.7 million over the 20-year period extending through February 2020, resulting in an economic gain (the difference between the present

values of the old and new debt service payments) of approximately \$4.9 million.

In February 2000, the County of St. Joseph Economic Development District prepaid its Tax Increment Financing Program Bonds of 1991, Series A-1 and A-2 (the 1991 Obligations), which solely supported the Bond Bank's Series 1991A Bonds. The Bond Bank used the proceeds from the prepayment of the 1991 Obligations to purchase U.S. Government obligations which were placed in an irrevocable trust for the sole purpose of defeasing the Series 1991A Bonds. As a result, the investments held in the irrevocable trust and the Series 1991A Bonds are not recorded in the accompanying financial statements. The amount of Series 1991A Bonds considered defeased was \$27,995,000 at June 30, 2000.

Colleges and Universities -- Both Indiana University and Purdue University are authorized by acts of the Indiana General Assembly to issue bonds for the purposes of financing construction of student union buildings, halls of music and housing, athletic, parking, hospital, academic facilities and utility systems.

Indiana University

The outstanding long-term bonded indebtedness at June 30, 2000 was \$540.4 million with interest rates ranging from 4.0% to 6.6%.

On November 1, 1999, the university issued a bond anticipation note (BAN) in the aggregate principal amount of \$1.7 million to fund certain costs associated with the acquisition, construction, and equipping of a new parking garage on the Kokomo campus, providing 380 new parking spaces. The interest rate was 4.55%.

On December 8, 1999, the university issued Indiana University Student Fee Bonds, Series M, in the amount of \$47.9 million. The purpose of the issue was to provide partial financing for the Graduate School of Business building on the Bloomington campus and the School of Law building on the Indianapolis campus; and the financing of the renovation of the existing Law School on the Indianapolis campus for use as a facility for ceramics and sculpture programs of the Herron School of Art and the expansion/renovation of the Life Sciences building and the Physical Sciences Building on the Southeast campus. The true interest cost was 5.517%.

In prior years, Indiana University has defeased bond issues either with cash or by issuing new debt. U.S. Treasury obligations have been purchased in

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amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trust with the trustee. Neither the defeased bonds nor the related trusts are

reflected on the University's books. The total amount of defeased debt outstanding at June 30, 2000 was \$78.2 million.

Purdue University

The outstanding long-term bonded indebtedness at June 30, 2000 was \$287.6 million at 2.6% to 6.5% for Purdue University.

In prior years, Purdue University has defeased bond issues either with cash or by issuing new debt. U.S. Treasury obligations have been purchased in

amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trust with the trustee. Neither the defeased bonds nor the related trusts are reflected on the University's books. The total amount of defeased debt outstanding at June 30, 2000 was \$149.9 million.

**G. Equity Reserves**

Reserved fund balances/retained earnings are as follows:

Fund balance / retained earnings reserved for:	Encumbrances and prepaid items	Tuition Support	Employees' pension benefits	Advances and inter-governmental loans	Debt service	Special purposes, future losses and other	Endowments and similar funds	Total reserves
<b>Governmental funds:</b>								
General Fund	\$ 55,454	\$ 265,000	\$ -	\$ 12,854	\$ -	\$ -	\$ -	\$ 333,308
Special revenue funds	1,018,464	-	-	381,257	-	-	-	1,399,721
Debt service funds	-	-	-	-	12,040	-	-	12,040
Capital projects funds	13,215	-	-	10,092	-	-	-	23,307
<b>Proprietary funds:</b>								
Enterprise funds	-	-	-	865	-	60,057	-	60,922
Internal service funds	-	-	-	300	-	7,097	-	7,397
<b>Trust and agency funds:</b>								
Non-expendable trust funds	-	-	-	269,765	-	-	-	269,765
Pension trust funds	-	-	16,186,104	-	-	-	-	16,186,104
<b>Discretely presented component units:</b>								
Governmental	10,102	-	-	-	-	-	-	10,102
Colleges and universities	-	-	-	-	-	-	409,069	409,069
<b>Total</b>	<b>\$ 1,097,235</b>	<b>\$ 265,000</b>	<b>\$ 16,186,104</b>	<b>\$ 675,133</b>	<b>\$ 12,040</b>	<b>\$ 67,154</b>	<b>\$ 409,069</b>	<b>\$ 18,711,735</b>

**H. Contributed Capital**

There were no changes to contributed capital. The balances were as follows:

	Enterprise Funds	Internal Service Funds			
	Inns and concessions	Institutional Industries	Administrative services revolving	State Office Building Commission	Total
Contributed Capital	\$ 9,308	\$ 8,878	\$ 1,490	\$ 9,981	\$ 29,657

**I. Restatements and Reclassifications**

For the fiscal year ended June 30, 2000, certain changes have been made to the financial statements to more appropriately reflect financial activity of the State of Indiana

Primary Government - For the fiscal year ended June 30, 2000, the Employee, Payroll, Withholding and Benefits fund and Local Distributions fund are being

reported as agency funds and were not reported that way in the past. Other prior period adjustments are

reclassifications and errors not individually material to the financial statements.

The following schedule presents a summary of restated beginning balances by fund type:

	June 30, 1999 As Reported	Prior Period Adjustments	Balance July 1, As Restated
<b>Primary government including blended component units:</b>			
General Fund	\$ 3,440,583	\$ (7)	\$ 3,440,576
Special revenue funds	1,868,267	1,486	1,869,753
Debt service funds	10,706	-	10,706
Capital projects funds	517,898	(176)	517,722
Enterprise funds	146,357	166	146,523
Internal service funds	50,887	(3,571)	47,316
<b>Trust and agency funds:</b>			
Expendable trust	1,941,517	-	1,941,517
Nonexpendable trust	421,430	-	421,430
Pension trust	14,828,110	1	14,828,111
Agency (asset)	354,493	6,077	360,570
<b>Discretely presented component units:</b>			
Governmental	19,863	176	20,039
Proprietary	443,143	1	443,144
Colleges & universities	3,840,339	(113)	3,840,226
	<u>\$ 27,883,593</u>	<u>\$ 4,040</u>	<u>\$ 27,887,633</u>

#### IV. OTHER INFORMATION

##### A. Risk Management

The State of Indiana is exposed to various risks of loss. This includes damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, errors, omissions and theft by employees, certain employee health benefits, employee death benefits, and unemployment and worker's compensation costs for State employees.

The State records an expenditure for any loss as the liability is incurred or replacement items are purchased. The State does purchase immaterial amounts of commercial insurance. Settlements related to commercial insurance have not exceeded coverage in the past three fiscal years.

The State does have risk financing activity for the state employees' disability, state employees' death benefits, certain state employees' health benefits, and certain health, disability and death benefits for State Police officers. These are reported in five individual Internal Service Funds. The state employees' disability program is financed partially by state

employees through payroll withholdings and by the funds from which employees are paid. The employees' death benefits are financed through a charge to each fund with payroll expenditures. The charge is a percentage of gross pay. The employees' health benefits and the State Police traditional health plan are funded by the employees who have selected certain health care benefit packages and the funds from which those employees are paid. (An insurance carrier does provide claims administration services for the health insurance programs.) The State Police benefit fund is financed by statutory appropriations and certain witness fees.

Located below is the table of claim liabilities. The liabilities are not maintained in the accounting records of the State. The claim liabilities for the health insurance programs and the State Disability fund were estimated based on the historical experience rate of claims paid that were for service dates incurred during a prior fiscal year. The liability for employee death benefit is based on claims submitted and paid during July for liabilities incurred prior to June 30. The liability of the State Police benefit fund was based on an estimate of the minimum liability of death and

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disability payments. Claims expenses and liabilities were not reasonably estimable for State Employee

death benefits. The surplus retained earnings in these funds is reserved for future catastrophic losses.

	State Police Health Insurance Fund	State Employees' Health Insurance Fund	State Disability Fund	State Employees' Death Benefits fund	State Police Death Benefits	Total
<b>2000</b>						
Unpaid Claims, July 1	\$ 2,302	\$ 6,315	\$ 9,579	\$ -	\$ 1,175	\$ 19,371
Incurred Claims and Changes in Estimate	13,208	-57,275	20,151	-	1,362	91,996
Claims Paid	13,497	55,580	18,612	-	1,262	88,951
Unpaid Claims, June 30	<u>\$ 2,013</u>	<u>\$ 8,010</u>	<u>\$ 11,118</u>	<u>\$ -</u>	<u>\$ 1,275</u>	<u>\$ 22,416</u>
<b>1999</b>						
Unpaid Claims, July 1	\$ 2,200	\$ 7,250	\$ 833	\$ 50	\$ 1,090	\$ 11,423
Incurred Claims and Changes in Estimate	12,558	47,454	23,646	50	1,255	84,963
Claims Paid	(12,456)	(48,389)	(14,900)	(100)	(1,170)	(77,015)
Unpaid Claims, June 30	<u>\$ 2,302</u>	<u>\$ 6,315</u>	<u>\$ 9,579</u>	<u>\$ -</u>	<u>\$ 1,175</u>	<u>\$ 19,371</u>

The trustees of Indiana University and Purdue University have chosen to assume a portion of the risk of loss for their respective institutions. Each university is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; health and other medical benefits provided to employees and their dependents. The

universities individually handle these risks of loss through combinations of risk retention and commercial insurance. The amount of settlements did not exceed insurance coverage in the past three fiscal years. The universities' estimated liability for unpaid claims at June 30, 2000 was \$28.9 million.

#### **B. Investment in Joint Venture**

The Indiana Transportation Finance Authority (ITFA) is a participant in a governmental joint venture with United Airlines. This participation is an investment, pursuant to an Agreement Among Tenants of Leasehold Estate in Airport Development Project (joint venture), dated as of December 1, 1991 and amended as of May 15, 1995 to obtain an individual ownership interest in the Site and facilities to be acquired and constructed by United Airlines, as outlined in the Site and Facilities Lease Agreement, dated as of December 1, 1991 and amended as of May 15, 1995.

The ITFA deposited \$159 million of the bond proceeds of the Series 1992A bonds into the project account of the construction fund to provide for a portion of the costs of constructing and equipping Phase I of the United Airlines Indianapolis Maintenance Center. Additional proceeds of \$32.8 million, which consisted

of capitalized and accrued interest, were deposited in the interest account of the construction fund.

The construction fund transactions related to the investment in Joint Venture are not reported as part of the financial reporting relating to ITFA's Airport Facilities Lease Revenue bonds. The construction fund is used to account for the acquisition and construction of a portion of the United Airlines Facility.

Financial Statements can be obtained from the Indiana Transportation Finance Authority as noted in Note 1A.

#### **C. Segment Information -- Enterprise Funds**

The State of Indiana has five enterprise funds, which are intended to be self-supporting through user fees charged for services to the public. The Inns and Concessions provide lodging and dining throughout

the year for state park tourists. The Toll Bridges collect fees for the repayment of construction costs and to provide maintenance of the bridges. The Toll Roads collect fees for repayment of road construction and maintenance of roads. The State Lottery

Commission provides money for various pension and educational funds, as well as for local building projects. The Residual Malpractice Insurance Authority provides medical malpractice insurance for those who cannot get coverage.

Included below is segment information for enterprise funds for the fiscal year ended June 30, 2000.

	Inns and concessions	Toll bridges	Toll roads	State Lottery Commission	Malpractice Insurance Authority	Total
Operating revenue	\$ 16,770	\$ 813	\$ 92,929	\$ 582,542	\$ 1,394	\$ 694,448
Depreciation and amortization	538	106	10,409	1,008	-	12,061
Operating income (loss)	(425)	209	41,752	161,772	(865)	202,443
Operating transfers in (out)	-	-	-	(164,405)	-	(164,405)
Net income (loss)	(41)	214	31,699	838	(2)	32,708
Fixed asset additions	76	12	29,437	1,145	-	30,670
Net working capital	1,882	2,774	183,693	65,397	3,256	257,002
Total assets	14,106	4,292	423,755	157,021	15,242	614,416
Bonds payable	463	-	242,053	-	-	242,516
Total equity	9,769	1,945	168,518	5,051	3,256	188,539

#### D. Subsequent Events

During the 1999 legislative session, the Governor and the General Assembly passed a number of tax cuts and shifted certain welfare costs from the counties to the State. It is estimated that the tax cuts will reduce state revenue collections by \$572.3 million over the next two fiscal years. The shift in welfare costs is estimated to increase State distributions to local governments by \$69.1 million over the same period of time.

On July 28, 1999, the Indiana State Office Building Commission issued Facilities Revenue Bonds, Series 1999A, with an aggregate par value of \$96.8 million. The net bond proceeds will be used to fund approximately \$9.5 million of construction costs for the Miami Correctional Facility-Phase I, as well as to replace \$86.3 million of Hoosier Notes (principal and accrued interest) outstanding at June 30, 2000.

In July 1999, the Indiana Bond Bank issued \$8 million of Advanced Funding Program Notes through Series 1999B. The Bond Bank also issued \$7 million of State Revolving Fund Program Bonds through Series 1999 Taxable Subordinate I in September 1999.

#### E. Contingencies and Commitments

##### Litigation

The State does not establish reserves for judgements or other legal or equitable claims. Judgements and

other such claims must be paid from unappropriated fund balances. With respect to tort claims only, the State's liability is limited to \$300,000 for injury or death of one person in any one occurrence and \$5 million for injury or death of all persons in that occurrence.

The Indiana Attorney General's office estimates a liability of \$8-10 million for open tort lawsuits. During fiscal year ending June 30, 2000, the State paid \$8.2 million for tort settlements and judgements and \$647,000 for tort claims.

The Indiana Attorney General's office is currently handling the following cases which could result in significant liabilities to the State.

On July 26, 1993, a lawsuit was filed in Marion Circuit Court alleging that the State has failed to pay certain similarly classified State employees at equal rates of pay. The plaintiffs seek class action status. The relief sought includes damages in an unspecified amount, as well as injunctive relief. The State has filed a motion to dismiss for failure to exhaust administrative remedies. The motion was denied by the trial court, but the denial is being appealed. During fiscal year 1995, a similar action was filed in the Marion Superior Court. This matter is still pending, and if the State were ultimately unsuccessful, the loss would be in excess of \$15 million.

In a lawsuit filed against the State on January 19, 1993, the Marion County Superior Court invalidated

the portion of the Medicaid disability standard that previously permitted the State to ignore applicants' inability to pay for medical treatment that would lead to improvement in their medical condition. The Court of Appeals affirmed the decision and a petition for rehearing is pending. If unsuccessful in this litigation, the State would forfeit savings of up to \$30 million.

In September, 2000, various Lake County residents and Lake County officials filed a lawsuit in Tax Court claiming that residents of the county pay a disproportionate share of Hospital Care for the indigent property tax and that the tax, therefore violates various constitutional provisions. A response to the petition was filed in November. Plaintiffs are claiming that upwards of \$20 million should be refunded to taxpayers.

The State intends to vigorously defend each of the foregoing suits or other claims.

In addition, the State Lottery Commission (the Commission) is the defendant in a class action suit. During 1997, a class action suit was filed in Marion County Court on behalf of all persons denied prizes on tickets submitted beyond the statutorily required, final sixty-day claim period. In October 1997, the Court granted the Commission's motion to dismiss the complaint. However, the Indiana Court of Appeals reversed the trial court decision and found that the plaintiff was entitled to trial on the merits of his claim. The case is now pending before the Indiana Supreme Court.

Management and its legal counsel intend to vigorously defend its position but are unable to predict at this time the final outcome of the appeals process. If the Supreme Court upholds the plaintiff's appeal and allows a trial on the merits of the case, the Commission will vigorously defend its position and believes it will prevail. However, the Commission cannot predict the final resolution of this matter or whether its resolution could materially affect the Commission's results of operations, cash flows or financial position.

#### *Loss from reimbursement agreement*

The Indiana Development Finance Authority (IDFA) is a party to a Reimbursement Agreement with Qualitech Steel Corporation (Qualitech) and a bank relating to the \$33.1 million Indiana Development Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (the bonds). The proceeds of the bonds were used by Qualitech to help construct Qualitech's special bar

quality steel mini-mill facility, which was substantially complete on March 1, 1999.

To induce the bank to issue a letter of credit used as credit enhancement in the marketing of the bonds, the IDFA agreed to certain provisions in the Reimbursement Agreement. These provisions require the IDFA, in the event of certain defaults by Qualitech to either i) pay bond and related expenses from certain monies legally available to the IDFA, or ii) seek an appropriation from the Indiana General Assembly to repay the bank the amounts due under the Reimbursement Agreement.

Under a forbearance agreement through August 31, 2000, payments are estimated to aggregate \$3.5 million, which was recognized as a loss for the year ended June 30, 1999. Because interest rates on the debt service payments were variable, an additional loss of \$332,692 was incurred and recorded during the year ended June 30, 2000, of which \$166,667 is accrued at June 30, 2000. The bonds remain outstanding under an amended Reimbursement Agreement with a new letter bank credit. The Reimbursement Agreement requires that the IDFA maintain the debt service reserve fund at a level of \$3.99 million, and stipulates no declaration of default so long as bond and related payments are made.

The IDFA could be obligated to pay the outstanding balance of the bond issue, which would result in recognition of losses in future years. The amount of this contingency is the outstanding principal of the bonds totaling \$28.7 million as of September 1, 2000. Debt service reserve fund aggregating \$3.99 million are currently held in trust and may be available to reduce the contingency obligation.

#### *Federal Grants.*

The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements will not be material.

#### *Construction Commitments.*

As of June 30, 2000, the Indiana Transportation Finance Authority Highway Bonds, which are included in the financial reporting entity of the State of Indiana as a special revenue fund, had \$12.8 million committed for unfinished highway construction projects.

**F. Other Revenue**

Other revenue represents revenue received which cannot accurately be included with any of the other revenue sources. In most cases, the amount of "other revenue" received by a fund is insignificant in comparison with total revenues received.

**G. Economic Stabilization Fund**

In 1982 the Indiana General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund ("Rainy Day Fund"). This fund was established to assist in stabilizing revenue during periods of economic recession and is accounted for within the State general fund.

Each year the State Budget Director determines calendar year Adjusted Personal Income (API) for the State and its growth rate over the previous year, using a formula determined by the legislature. In general, monies are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2%; monies are removed automatically from the Rainy Day

Fund if API declines by more than 2%. All earnings from the investments of the Rainy Day Fund remain in the Rainy Day Fund. If the balance in the fund at the end of the fiscal year exceeds 7% of total general fund revenues for the same period, the excess is transferred from the Rainy Day Fund into the Property Tax Replacement Fund.

Loans can be made from the Rainy Day Fund to local units of government for specific purposes. The Rainy Day Fund cash and investment balance at the end of fiscal year 2000 was \$539.7 million. Total outstanding loans were \$.6 million, resulting in total assets of \$540.3 million.

**H. Gaming Tax Collections**

On July 1, 1999, P.L. 273-1999 created the State Gaming Fund for the collection of Riverboat Wagering Tax. Prior to July 1, 1999, the gaming tax was collected in the State General Fund. During FY 1999 \$295 million was collected in the General Fund. During FY 2000, \$330 million was collected in the State Gaming Fund:

Included below is comparison of the General Fund for the two years with the Riverboat Wagering Tax adjusted out:

	FY 1999	FY 2000	\$ Change	% Change
General Fund Tax Revenue	\$ 8,268,867	\$ 8,113,160	\$ (155,707)	-1.88%
less Riverboat Wagering Tax Collected in the General Fund	(295,181)	-	(295,181)	100.00%
Adjusted General Fund Revenue	<u>\$ 7,973,686</u>	<u>\$ 8,113,160</u>	<u>\$ 139,474</u>	<u>1.75%</u>

**I. Deferred Compensation**

The State offers its employees a deferred compensation plan (the plan) created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and employees of certain quasi-agencies and political subdivisions within the State, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of participants of the plan and their beneficiaries as required by section 457(g) of the Internal Revenue Code. In addition, the State has an

Indiana Incentive Match Plan which provides \$15 per pay period for each employee who contributes to the 457 Plan.

The State has established a deferred compensation committee that holds the fiduciary responsibility for the plan. The committee holds the deferred amounts in an expendable trust.

**J. Discretely Presented Component Units – Condensed Financial Statements**

The Indiana Development Finance Authority (IDFA) is the only discretely presented component unit of a governmental fund type and is considered significant. On the following pages are the condensed financial statements of the proprietary fund types and colleges and universities giving separate detail of the balances and activity of those considered significant to the State reporting entity.



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**Condensed Balance Sheet**

**Major and Aggregate Non-major Discretely Presented Component Units**

**Proprietary fund types and Colleges and Universities**

June 30, 2000

	Indiana University	Purdue University	Indiana Bond Bank	Indiana Housing Finance Authority	Non-major component units	Total
<b>Assets</b>						
Current assets	\$ 750,018	\$ 1,591,272	\$ 103,651	\$ 233,490	\$ 1,095,842	\$ 3,774,273
Non-current assets	-	-	1,257,978	679,111	194,374	2,131,463
Property, plant, and equipment net of accumulated depreciation	1,387,970	858,689	-	310	875,317	3,122,286
<b>Total assets</b>	<b>\$ 2,137,988</b>	<b>\$ 2,449,961</b>	<b>\$ 1,361,629</b>	<b>\$ 912,911</b>	<b>\$ 2,165,533</b>	<b>\$ 9,028,022</b>
<b>Liabilities</b>						
Current liabilities	\$ 212,075	\$ 422,607	\$ 27,789	\$ 2,791	\$ 381,320	\$ 1,046,582
Revenue bonds / notes payable	545,010	297,137	1,322,013	820,562	511,171	3,495,893
<b>Total liabilities</b>	<b>757,085</b>	<b>719,744</b>	<b>1,349,802</b>	<b>823,353</b>	<b>892,491</b>	<b>4,542,475</b>
<b>Equity</b>						
Net investment in plant	877,941	531,297	-	-	544,005	1,953,243
Endowments and similar funds	142,335	239,382	-	-	27,352	409,069
Unreserved retained earnings	-	-	11,827	89,558	335,623	437,008
Allocated fund balance	88,467	535,741	-	-	218,232	842,440
Unallocated fund balance	272,160	423,797	-	-	147,830	843,787
<b>Total equity</b>	<b>1,380,903</b>	<b>1,730,217</b>	<b>11,827</b>	<b>89,558</b>	<b>1,273,042</b>	<b>4,485,547</b>
<b>Total liabilities and equity</b>	<b>\$ 2,137,988</b>	<b>\$ 2,449,961</b>	<b>\$ 1,361,629</b>	<b>\$ 912,911</b>	<b>\$ 2,165,533</b>	<b>\$ 9,028,022</b>

**Condensed Statement of Changes in Fund Balance**

**Major and Aggregate Non-major Discretely Presented Component Units**

**Colleges and Universities**

For the Fiscal Year Ended June 30, 2000

	Indiana University	Purdue University	Non-major universities	Total
<b>Revenues and other additions:</b>				
Current fund revenues	\$ 1,100,590	\$ 694,327	\$ 595,353	\$ 2,390,270
Additions to plant and facilities	131,387	100,358	105,819	337,564
Retirement of indebtedness	31,943	32,199	49,112	113,254
Other additions	816,953	518,693	358,601	1,694,247
<b>Total revenues and other additions</b>	<b>2,080,873</b>	<b>1,345,577</b>	<b>1,108,885</b>	<b>4,535,335</b>
<b>Expenditures and other deductions:</b>				
Current fund expenditures	1,313,768	754,441	741,682	2,809,891
Expended for plant, facilities, and disposals	126,440	76,543	122,353	325,336
Bond issues, issuance costs, and retirements	76,497	4,709	38,106	119,312
Debt service requirements	21,533	48,857	20,579	90,969
Depreciation and amortization	94,263	68,358	48,790	211,411
Other deductions	403,236	282,612	84,111	769,959
<b>Total expenditures and deductions</b>	<b>2,035,737</b>	<b>1,235,520</b>	<b>1,055,621</b>	<b>4,326,878</b>
<b>Transfers from (to) other funds</b>				
Mandatory transfers	-	-	(904)	(904)
Non-mandatory transfers	-	-	760	760
<b>Total transfers from (to) other funds</b>	<b>-</b>	<b>-</b>	<b>(144)</b>	<b>(144)</b>
<b>Net increase (decrease) for the year</b>	<b>45,136</b>	<b>110,057</b>	<b>53,120</b>	<b>208,313</b>
<b>Fund balance, July 1, as restated</b>	<b>1,335,767</b>	<b>1,620,160</b>	<b>884,299</b>	<b>3,840,226</b>
<b>Fund balance, June 30</b>	<b>\$ 1,380,903</b>	<b>\$ 1,730,217</b>	<b>\$ 937,419</b>	<b>\$ 4,048,539</b>

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**Condensed Statement of Current Fund Revenues, Expenditures, and Other Changes  
Major and Aggregate Non-major Discretely Presented Component Units  
Colleges and Universities  
For the Fiscal Year Ended June 30, 2000**

	Indiana University	Purdue University	Non-major universities	Total
Revenues:	\$ 1,658,020	\$ 1,076,745	\$ 872,110	\$ 3,606,875
Expenditures and mandatory transfers:				
Expenditures:				
Educational and general	1,275,822	858,665	710,056	2,844,543
Auxiliary enterprises	272,244	131,238	105,666	509,148
Mandatory transfers	58,695	47,641	19,698	126,034
Total expenditures and mandatory transfers	1,606,761	1,037,544	835,420	3,479,725
Other transfers and additions (deductions):	(28,840)	(6,794)	(30,747)	(66,381)
Increase (decrease) in fund balance	\$ 22,419	\$ 32,407	\$ 5,943	\$ 60,769

**Condensed Statement of Revenues, Expenses and Changes in Retained Earnings  
Major and Aggregate Non-major Discretely Presented Component Units  
Proprietary fund types  
For the Fiscal Year Ended June 30, 2000**

	Indiana Bond Bank	Indiana Housing Finance Authority	Non-major component units	Total
Operating revenues:	\$ 63,197	\$ 13,103	\$ 52,205	\$ 128,505
Operating expenses:	3,568	7,327	20,553	31,448
Operating income (loss)	59,629	5,776	31,652	97,057
Nonoperating revenues (expenses):	(59,230)	(31,291)	(8,548)	(99,069)
Income before operating transfers	399	(25,515)	23,104	(2,012)
Operating transfers in (out)	-	-	(4,124)	(4,124)
Net income (loss)	399	(25,515)	18,980	(6,136)
Retained earnings, July 1, as restated	11,428	115,073	316,643	443,144
Retained earnings, June 30	\$ 11,827	\$ 89,558	\$ 335,623	\$ 437,008

## **K. Employee Retirement Systems and Plans**

The State of Indiana sponsors eight public employee retirement systems (PERS) that are included in the State's financial statements as pension trust funds.

### Summary of Significant Accounting Policies

Contributions are recognized when received with accrual adjustments at June 30, 2000. The accrual for contributions receivable is estimated for each retirement fund on the basis that best represents that fund's receivable. The different basis include actual third quarter contributions received during the quarter ended June 30, 2000, actual contributions received in July for work days in June, or a combination of the two. Legislators receive the majority of their pay in January and February and the contributions are transferred on the pay dates. Therefore, no receivable is established for the legislators' retirement funds.

Benefits paid are recognized when paid with an accrual adjustment at June 30, 2000. The accrual for benefits payable is based on benefits due at June 30 but not paid until July. Refunds are recognized when paid.

GASB Statement 25 requires that investments of defined benefit plans be reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

The buildings purchased as investments by the Public Employees Retirement Fund (PERF) are reported at cost as there has not been a recent independent appraisal. The buildings are immaterial to PERF's total investments.

*The state sponsors the following defined benefit single-employer plans:*

### State Police Retirement Fund

Plan Description The State Police Retirement Fund (SPRF), is a defined benefit, single-employer PERS, and is administered by the Indiana Department of State Police. Indiana Code 10-1-1 grants authority to the Department to establish and operate an actuarially sound pension plan governed by a pension trust and

to make the annual contributions necessary to prevent any deterioration in the actuarial status of the trust fund. The Department has a publicly available audit report that includes financial statements and required supplementary information of the plan. That report may be obtained by writing the Department of State Police, Room N340, IGC-North, Indianapolis, IN 46204.

Funding Policy The pre-1987 plan requires employee contributions of five percent of the salary of a third-year trooper. The 1987 plan applies to all officers hired after June 30, 1987. In addition, state police officers hired prior to July 1, 1987 could elect to be covered under this plan if the employee filed an election with the trustee before July 1, 1989. Participants under the 1987 plan contribute six percent of their monthly base salary.

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded over a forty year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll method. The funding policy for normal cost and unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

The State is required to contribute at an actuarially determined rate; the current rate is 18.5% of covered payroll.

### Excise Police and Conservation Enforcement Officers' Retirement Fund

Plan Description The Excise Police and Conservation Enforcement Officers' Retirement Fund (ECRF) is a defined benefit single-employer plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The retirement fund is for employees of the Indiana Department of Natural Resources and Indiana Alcoholic Beverage Commission who are engaged exclusively in the performance of law enforcement duties.

The Excise Police and Conservation Enforcement Officers' Retirement Fund provides retirement, disability, and survivor benefits. Indiana Code 5-10-5.5 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that

includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Members are required by statute to contribute three percent of the first \$8,500 of annual salary to the Fund. The State of Indiana, as employer, is required by statute to contribute the remaining amount necessary to actuarially finance the coverage; the current rate is 15.6% of covered payroll.

The funding policy for employer contributions of the Excise Police and Conservation Enforcement Officers' Retirement Fund provides for biennial appropriations authorized by the Indiana General Assembly, which when combined with anticipated member contributions are sufficient to actuarially fund benefits (normal cost), amortize the unfunded accrued liability for forty years, and prevent the state's unfunded accrued liability from increasing.

#### Prosecuting Attorneys' Retirement Fund

Plan Description The Prosecuting Attorneys' Retirement Fund (PARF) is a defined benefit single-employer plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The Prosecuting Attorneys' Retirement Fund provides retirement, disability retirement, and survivor benefits for individuals who serve as a prosecuting attorney or chief deputy prosecuting attorney on or after January 1, 1990. These individuals are paid from the General Fund of the State of Indiana. Indiana Code 33-14-9 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of wages. The amount required to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendations of an actuary, is to be appropriated from the State's General Fund.

#### Legislators' Retirement System – Legislators' Defined Benefit Plan

Plan Description The Legislators' Retirement System (LRS) is composed of two separate and distinct plans to provide retirement benefits to the members of the General Assembly of the State of Indiana. The Legislators' Defined Benefit Plan (IC 2-3.5-4), a defined benefit single-employer PERS, applies to each member of the General Assembly who was serving on April 30, 1989 and files an election under IC 2-3.5-3-1(b). The Legislators' Defined Benefit Plan provides retirement, disability and survivor benefits.

The plan is administered by the Board of Trustees of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy The amount required by the funding policy to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendation of an actuary, is to be appropriated from the State's General Fund.

#### Judges' Retirement System

Plan Description The Judges' Retirement System (JRS) is a defined benefit single-employer Public Employee Retirement System administered by the Board of Trustees of the Public Employees' Retirement Fund. The Judges' Retirement System provides retirement, disability retirement, and survivor benefits. Coverage is for any person who has served, is serving or shall serve as a regular judge of any of the following courts: Supreme Court of the State of Indiana; Circuit Court of any Judicial Circuit; Indiana Tax Court; County Courts including Circuit, Superior, Criminal, Probate, Juvenile, Municipal and County Court. IC 33-13-10.1 applies to judges beginning service after August 31, 1985. Indiana Code 33-13-8 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Member contributions are established by statute at six percent of total statutory compensation. However, no contribution is required

and no such amounts shall be paid on behalf of any participant for more than twenty-two years.

Employer contributions are determined by the Indiana General Assembly as biennial appropriations from the State General Fund. Indiana Code 33-13-8-16(a)(1) provides that this appropriation only include sufficient funds to cover the aggregate liability of the Fund for benefits to the end of the biennium, on an actuarially funded basis. In addition to the General Fund appropriations, the statutes provide for remittance of docket fees and court fees. These are considered employer contributions.

*The State sponsors the following defined benefit agent multiple-employer plan:*

Public Employees' Retirement Fund

Plan Description The Public Employees' Retirement Fund (PERF) is a defined benefit agent multiple-employer plan administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 5-10.2 and 5-10.3 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

At June 30, 2000, the number of participating political subdivisions was 1023.

Funding Policy The State of Indiana and any political subdivision that elects to participate in the PERF fund is obligated by statute to make contributions to the plan. The required employer contributions are determined by the Board of Trustees based on actuarial investigation and valuation. PERF funding policy provides for periodic employer contributions at actuarially determined rates, that, expressed as percentage of annual covered payroll, are sufficient to fund the pension portion of the retirement benefit (normal cost), administrative expenses, and anticipated increase in the unfunded actuarial accrued liability for the next fiscal year. In addition, employers must remit quarterly payment of the amortization of the initial prior service cost. The amortization period is forty years for those employers whose effective date of participation was before 1985. Thereafter, employers joining have the prior service cost amortized over fifteen years.

Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of wages. These contributions are credited to the member's annuity savings account that funds the annuity portion of the retirement benefit.

The State is required to contribute for state employees at an actuarially determined rate; the current rate is 5.0% of covered payroll.



*The State sponsors the following cost-sharing multiple-employer plans:*

State Teachers' Retirement Fund

Plan Description The State Teachers' Retirement Fund (STRF), is a defined benefit, multiple-employer cost-sharing PERS, administered by the Indiana State Teachers' Retirement Fund Board of Trustees. Indiana Code 21-6.1 governs the requirements of the Fund. The Indiana State Teachers' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana State Teachers' Retirement Fund, 150 West Market Street, Indianapolis, IN 46204, or by calling 317-232-3860.

At June 30, 2000, the number of participating employers was 353.

Funding Policy Each school corporation contributes the employer's share to the Fund for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995 (post July 1, 1995 plan). The employer's share of contributions for certified personnel who are not employed under a federally funded program or were hired before July 1, 1995 is considered to be an obligation of, and is paid by, the State of Indiana (pre July 1, 1995 plan). The pre July 1, 1995 plan is on a "pay as you go" basis. State appropriations are made for the amount of estimated pension benefit pay-outs

for each fiscal year. These appropriations include revenues from the State Lottery Commission.

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description The 1977 Police Officers' and Firefighters' Pension and Disability Fund (PFPF) is a defined benefit, multiple employer cost sharing Public Employees Retirement System administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 36-8-8 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

At June 30, 2000, the number of participating political subdivisions was 238.

Funding Policy A participant is required by statute to contribute six percent of a first-class patrolman or firefighter's salary for the term of their employment up to thirty-two years. Employer contributions are determined actuarially. The funding policy mandated by statute requires quarterly remittances of member and employer contributions based on percentages of locally established estimated salary rates, rather than actual payroll.

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The annual required contributions, percentage contributed, and historical trend information, for the cost sharing, multiple-employer plans are as follows:

	STRF	PFPF*
<b><u>Historical Trend Information</u></b>		
<b><u>Year ended June 30, 1999</u></b>		
Annual required contribution	\$ 524,815.6	\$ 63,682.3
percentage contributed	117%	100%
<b><u>Year ended June 30, 1998</u></b>		
Annual required contribution	\$ 508,259.7	\$ 57,726.0
percentage contributed	92%	100%
<b><u>Year ended June 30, 1997</u></b>		
Annual required contribution	\$ 508,940.1	\$ 52,249.0
percentage contributed	106%	101%
STRF - State Teachers' Retirement Fund		
PFPF - 1977 Police Officers and Firefighters' Retirement Fund		
* - year ended December 31		

*The State sponsors the following defined contribution plan:*

### Legislators' Retirement System – Legislators' Defined Contribution Plan

**Plan Description** The Legislators' Retirement System (LRS) is composed of two separate and distinct plans to provide retirement benefits to the members of the General Assembly of the State of Indiana. The Legislators' Defined Contribution Plan (IC 2-3.5-5), a single employer defined contribution plan applies to each member of the General Assembly who was serving April 30, 1989 and files an election under IC 2-3.5-3-1(b), and each member of the General Assembly who is elected or appointed after April 30, 1989. The plan provides retirement and survivor benefits. The plan is administered by the Board of Trustees' of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

**Funding Policy** Each participant shall make contributions of five percent of salary received for services after June 30, 1989. Contributions equal to twenty percent of the annual salary received by each participant for services after June 30, 1989, are to be made from the biennial appropriation from the State's General Fund. Actual contributions for the year ended June 30, 2000 were \$970,000.

### **Discretely Presented Component Units**

#### ***Governmental and proprietary fund types***

Employees of the Indiana Development Finance Authority, the Indiana Housing Finance Authority, and the Indiana Bond Bank are covered by the Public Employees' Retirement Fund (PERF). Contributions made during the fiscal year are included in the disclosures for PERF.

#### ***Colleges and Universities***

Substantially all permanent employees of the college and universities in the State are covered by either the independently administered Teacher Insurance and Annuity Association (TIAA-CREF) or the Public Employees' Retirement Fund (PERF).



The TIAA-CREF plan is a defined contribution plan with contributions made to individually owned deferred annuity contracts. This plan offers career faculty and professional staff mobility since over 5,000 colleges and universities nationwide participate in TIAA-CREF. These are fixed contribution programs in which the retirement benefits received are based on the contributions made plus interest and dividends. Participants in this plan are immediately vested. Eligibility and contribution requirements for TIAA-

CREF are determined by each institution. Indiana University and Purdue University contributed \$91.9 million for 11,979 participants for the year ended June 30, 2000.

Other staff employees are eligible to become members of PERF. Contributions by the institutions during fiscal year 1998 are included in the disclosures for PERF.

	PERF		Complete					
	State	Municipal	SPRF	ECRF	JRS	PARF	LRS	
<b>Valuation Date: July 1, 2000</b>								
Actuarial value of assets	-	-	\$ 292,383	-	-	-	-	-
Actuarial accrued liability (AAL)	-	-	326,016	-	-	-	-	-
Excess of assets over (unfunded) AAL	-	-	(33,633)	-	-	-	-	-
Funded ratio	-	-	90%	-	-	-	-	-
Covered payroll	-	-	50,898	-	-	-	-	-
Excess (unfunded) AAL as a percentage of covered payroll	-	-	-66%	-	-	-	-	-
<b>Valuation Date: July 1, 1999</b>								
Actuarial value of assets	\$ 1,828,584	\$ 2,179,129	\$ 273,032	\$ 31,510	\$ 91,073	\$ 8,323	\$ 4,319	
Actuarial accrued liability (AAL)	1,583,486	1,904,943	303,805	43,368	176,301	13,712	5,473	
Excess of assets over (unfunded) AAL	245,098	274,186	(30,773)	(11,858)	(85,228)	(5,389)	(1,154)	
Funded ratio	115%	114%	90%	73%	52%	61%	79%	
Covered payroll	1,271,756	1,978,441	46,361	11,317	30,963	12,566	**	
Excess (unfunded) AAL as a percentage of covered payroll	19%	14%	-66%	-105%	-275%	-43%	**	
<b>Valuation Date: July 1, 1998</b>								
Actuarial value of assets	\$ 1,626,450	\$ 1,925,592	\$ 255,614	\$ 28,663	\$ 79,594	\$ 7,144	\$ 4,041	
Actuarial accrued liability (AAL)	1,491,986	1,775,251	289,612	41,679	160,845	11,356	5,385	
Excess of assets over (unfunded) AAL	134,464	150,341	(33,998)	(13,016)	(81,251)	(4,212)	(1,344)	
Funded ratio	109.01%	108.47%	88%	69%	49%	63%	75%	
Covered payroll	1,229,903	1,880,259	45,187	10,137	30,853	11,673	742	
Excess (unfunded) AAL as a percentage of covered payroll	10.93%	8.00%	-75%	-128%	-263%	-36%	-181%	
<b>Valuation Date: July 1, 1997</b>								
Actuarial value of assets	\$ 1,447,332	\$ 1,699,981	\$ 240,880	\$ 26,324	\$ 69,357	\$ 5,970	\$ 3,834	
Actuarial accrued liability (AAL)	1,465,189	1,661,044	279,575	38,460	150,005	9,504	5,429	
Excess of assets over (unfunded) AAL	(17,857)	38,937	(38,695)	(12,136)	(80,648)	(3,534)	(1,595)	
Funded ratio	99%	102%	86%	68%	46%	63%	71%	
Covered payroll	1,283,228	1,773,165	44,470	9,855	29,228	11,811	882	
Excess (unfunded) AAL as a percentage of covered payroll	-1%	2%	-87%	-123%	-276%	-30%	-181%	

**LRS - Legislators' Retirement System**

\* The benefit formula is determined based on service rather than compensation. The unfunded liability is expressed per active participant and there are 60 active participants. The unfunded liability per active participant is \$19,245.

## **Appendix B**

### **Series 2001 A Qualified Obligations**

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## APPENDIX B

### SERIES 2001 A QUALIFIED OBLIGATIONS

Qualified Entity	Par Amount	Source of Payment	Final Maturity	Percentage of Total Debt
Cowan School Corp.	\$495,000	Tax Based	01/01/2012	7.882%
Southeast Dubois School Corp.	700,000	Tax Based	01/15/2017	11.146%
Allen County	1,700,000	Revenue	01/15/2021	27.070%
City of Fort Wayne	1,700,000	Revenue	01/15/2021	27.070%
Allen County Parking Facility Bldg. Corp.	1,685,000	Tax Based	01/01/2006	26.831%
Total	\$ 6,280,000			100%

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## **APPENDIX C**

### **FORM OF APPROVING BOND COUNSEL OPINION**

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## APPENDIX C

### FORM OF APPROVING BOND COUNSEL OPINION

Upon delivery of the Bonds, Bingham Summers Welsh & Spilman, LLP, bond counsel,  
will deliver an opinion substantially in the following form:

July 24, 2001

Indiana Bond Bank  
Indianapolis, Indiana

Re: Indiana Bond Bank Special Program Bonds, Series 2001 A

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Indiana Bond Bank (the "Issuer") of \$7,055,000.00 aggregate principal amount of its Special Program Bonds, Series 2001 A, dated as of July 1, 2001 (the "Bonds") pursuant to Indiana Code 5-1.5, as amended, and an Indenture of Trust, dated as of July 1, 2001 (the "Indenture"), between the Issuer and National City Bank of Indiana, as trustee (the "Trustee"). We have examined the law and such certified proceedings for the authorization, issuance and sale of the Bonds, and such other documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer contained in the Indenture, the certified proceedings for the authorization, issuance and sale of the Bonds and other certifications of public officials furnished to us, and certifications, representations and other information furnished to us by or on behalf of the Issuer, the Series 2001 A Qualified Entities (as defined in the Indenture) and others, including certifications contained in the tax and arbitrage certificate of the Issuer, dated the date hereof, and the tax and arbitrage certificate of each of the Series 2001 A Qualified Entities, dated the date hereof (collectively, "Tax Covenants"), without undertaking to verify the same by independent investigation. We have relied upon the legal opinion of Barnes & Thornburg, Indianapolis, Indiana, dated the date hereof, as to the matters stated therein. We have also relied upon the report of Crowe, Chizek and Company LLP, Indianapolis, Indiana, independent certified public accountants, dated the date hereof, as to the matters stated therein.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Issuer is a body corporate and politic validly existing under Indiana Code 5-1.5, with the corporate power to execute and deliver the Indenture and to issue, execute and deliver the Bonds.
2. The Bonds have been duly authorized, executed and delivered by the Issuer, and are valid and binding limited obligations of the Issuer, enforceable in accordance with their terms. The Bonds are payable solely from and secured exclusively by a pledge of the Trust Estate (as defined in the Indenture).
3. The Indenture has been duly authorized, executed and delivered by the Issuer, and is a valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms.
4. Under existing laws, regulations, judicial decisions and rulings, the interest on the Bonds is excludable from gross income pursuant to Section 103 of the Internal Revenue Code of 1986, as amended ("Code") for federal income tax purposes. This opinion relates only to the exclusion from gross income of interest on the Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance by the Issuer and Series 2001 A Qualified Entities with the Tax Covenants. Failure to comply with the Tax Covenants could cause interest on the Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to the date of issue.

5. Under existing laws, regulations, judicial decisions and rulings, the interest on the Bonds is exempt from income taxation in the State. This opinion relates only to the tax exemption of interest on the Bonds from State income taxes.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement dated July 12, 2001, or any other offering material relating to the Bonds, and we express no opinion relating thereto.

It is to be understood that the rights of the owners of the Bonds, the Issuer, and the Trustee and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore and hereafter enacted to the extent constitutionally applicable and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity. It is to be understood that the rights of the owners of the Bonds, the Issuer and the Trustee and the enforceability of the Bonds, and the Indenture may be subject to the valid exercise of the constitutional powers of the State and the United States of America.

Very truly yours,

## **Appendix D**

### **Summary of Certain Provisions of the Indenture**

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## **APPENDIX D**

### **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.**

The following is a summary of certain additional provisions of the Indenture not otherwise discussed in this Official Statement. This summary is qualified in its entirety by reference to the Indenture.

#### **Accounts and Reports**

The Bond Bank will keep proper and separate books of records and accounts in which complete and correct entries will be made of its transactions relating to the Funds and Accounts established by the Indenture. Such books, and all other books and papers of the Bond Bank, and all Funds and Accounts will at all reasonable times be subject to the inspection of the Trustee and the owners of an aggregate of at least 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

Before the twentieth day of each month, the Trustee will provide the Bond Bank with a statement of the amounts on deposit in each Fund and Account as of the first day of that month and the total deposits to and withdrawals from each Fund and Account during the preceding month. The Bond Bank may provide for less frequent statements so long as such statements are supplied no less frequently than quarterly.

#### **Preservation of Tax Exemption for the Bonds**

In order to assure the continuing excludability of interest on the Bonds from the gross income of the owners thereof for purposes of federal income taxation, the Bond Bank covenants and agrees that it will not take any action or fail to take any action with respect to the Bonds, that would result in the loss of the exclusion from gross income for federal tax purposes of interest on any of the Bonds pursuant to Section 103 of the Code, nor will the Bond Bank act in any other manner which would adversely affect such exclusion; and it will not make any investment or do any other act or thing during the period that the Bonds are Outstanding which would cause any of the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code, all as in effect on the date of delivery of the particular Series of Bonds. Pursuant to the Indenture, all of these covenants are based solely on current law as in existence and effect on the date of delivery of the particular Series of Bonds. It will not be an Event of Default under the Indenture if the interest on the Bonds is not excluded from gross income for federal tax purposes or otherwise pursuant to any provision of the Code which is not currently in effect and in existence on the date of the issuance of such Bonds.

In making any determination regarding the covenants, the Bond Bank may rely on an Opinion of Bond Counsel.

#### **Covenants Concerning the Bonds**

In order to provide for the payment of the principal of and interest on the Bonds and of Program Expenses, the Bond Bank will from time to time, with all practical dispatch and in a sound and economical manner in accordance with the Act, the Indenture and sound banking practices and principals (i) do all acts and things as are necessary to receive and collect Revenues (including the enforcement of the prompt collection of any arrears on all Qualified Obligation Payments), and (ii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Bond Bank to protect the rights of the Bond Bank with respect to the Qualified Obligations and to enforce all terms, covenants and conditions of the Qualified Obligations. Whenever necessary in order to provide for the payment of principal of and interest on the Bonds, the Bond Bank will also commence appropriate remedies with respect to any Qualified Obligation which is in default.

## **Covenants with Respect to Qualified Obligations**

With respect to the Qualified Obligations, the Bond Bank covenants as follows:

(a) Not to permit or agree to any material change in any Qualified Obligation (other than ones for which consent of the Bond Bank is not required) unless the Bond Bank supplies the Trustee with a Cash Flow Certificate to the effect that, after such change, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any in each such Fiscal Year.

(b) To the extent that such action would not adversely affect the validity of the Qualified Obligation or other obligations of the Qualified Entity, or cause such Qualified Obligation to be considered debt of the Qualified Entity, the Bond Bank will pursue the remedies set forth in the Act, particularly Indiana Code 5-1.5-8-5, for the collection of deficiencies in Qualified Obligation Payments on any Qualified Obligation by collection of such deficiencies out of certain State funds payable but not yet paid to a defaulting Qualified Entity.

(c) To enforce or authorize the enforcement of all remedies available to the Bond Bank as the owner or holder of the Qualified Obligations, unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that, if such remedies are not enforced, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds in each such Fiscal Year and the Trustee determines that failure to enforce such remedies will not adversely affect the interests of the Bondholders in any material way.

(d) Not to sell or dispose of the Qualified Obligations, unless the Bond Bank first provides the Trustee with a Cash Flow Certificate to the effect that, after such sale, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, minus any proceeds of such sale or disposition transferred from any Fund or Account, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any, in each such Fiscal Year.

## **Certification Covenants**

In the event that a deficiency in the Debt Service Reserve Fund is projected in the annual budget of the Bond Bank, the Chairman of the Board of Directors of the Bond Bank will certify such projected deficiency to the State General Assembly on or before August 1 of the Fiscal Year in which such deficiency is projected to occur. Further, regardless of whether any such deficiency was projected for its annual budget and regardless of the time at which such deficiency occurs or is projected to occur, the Bond Bank will take all actions required or allowed under the Act to certify any deficiency or projected deficiency in the Debt Service Reserve Fund to the State General Assembly.

## **Budgets**

The Bond Bank will adopt and file with the Trustee and appropriate State officials under the Act an annual budget covering its fiscal operations for the succeeding Fiscal Year not later than June 30 of each year. The annual budget will be open to inspection by any Owner of Bonds. In the event the Bond Bank does not adopt an annual budget for the succeeding Fiscal Year on or before June 30, the budget for the preceding Fiscal Year will be deemed to have been adopted and be in effect for the succeeding Fiscal Year until the annual budget for such Fiscal Year has been duly adopted. The Bond Bank may at any time adopt an amended annual budget in the manner then provided in the Act.

## **Defeasance and Discharge of Lien of Indenture**

If payment or provision for payment is made to the Trustee of the principal of and interest due and to become due on all of the Bonds then Outstanding under the Indenture, and if the Trustee receives all payments due and to become due under the Indenture, then the Indenture may be discharged in accordance with its provisions. In the event of any early redemption of Bonds in accordance with their terms, the Trustee must receive irrevocable

instructions from the Bond Bank, satisfactory to the Trustee, to call such Bonds for redemption at a specified date and pursuant to the Indenture. Outstanding Bonds will continue to be a limited obligation of the Bond Bank payable only out of the moneys or securities held by the Trustee for the payment of the principal of and interest on the Bonds.

Any Bond will be deemed to be paid when payment of the principal of that Bond, plus interest to its due date, either (a) has been made or has been caused to be made in accordance with its terms, or (b) has been provided for by irrevocably depositing with the Trustee, in trust and exclusively for such payment, (i) moneys sufficient to make such payment, (ii) noncallable or nonrepayable Governmental Obligations maturing as to principal and interest in such amounts and at such times, without consideration of any reinvestment thereof, as will insure the availability of sufficient moneys to make such payments, or (iii) a combination of such moneys and Governmental Obligations, and all other sums payable under the Indenture, including the necessary and proper fees and expenses of the Trustee pertaining to the Bonds, have been paid or deposited with the Trustee.

### **Events of Default and Remedies**

Any of the following events constitutes an "Event of Default" under the Indenture:

(a) The Bond Bank defaults in the due and punctual payment of the principal of or interest on any Bond;

(b) The Bond Bank defaults in carrying out any of its other covenants, agreements or conditions contained in the Indenture or in the Bonds, and fails to remedy such Event of Default within 60 days after receipt of notice, all in accordance with the Indenture;

(c) Any warranty, representation or other statement by or on behalf of the Bond Bank contained in the Indenture, or in any instrument furnished in compliance with or in reference to the Indenture, is materially false or misleading when made, and there has been a failure to remedy such Event of Default within 60 days after receipt of notice, all in accordance with the Indenture;

(d) The Bond Bank fails to make remittances required by the Indenture to the Trustee within the time limits prescribed in the Indenture;

(e) A petition is filed against the Bond Bank under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect and is not dismissed within 60 days after such filing;

(f) The Bond Bank files a voluntary petition in bankruptcy or seeking relief under any provisions of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under such law;

(g) The Bond Bank is generally not paying its debts as such debts become due, or becomes insolvent, bankrupt, or makes an assignment for the benefit of creditors, or a liquidator or trustee of the Bond Bank or any of its property is appointed by court order or takes possession and such order remains in effect or such possession continues for more than 60 days;

(h) The Bond Bank fails to restore the Debt Service Reserve Fund to the applicable Debt Service Reserve Requirement within 120 days after the end of the Fiscal Year during which a deficiency occurs; or

(i) The Bond Bank is rendered incapable of fulfilling its obligations under the Indenture for any reason.

Upon the occurrence and continuance of an Event of Default, the Trustee will notify the Owners of Outstanding Bonds of such Event of Default and upon receiving the express written consent of the Series 2001 A

Bond Insurer with respect to exercising any such remedies in connection with the Series 2001 A Bonds if the Series 2001 A Bond Insurance Policy is in full force and effect at such time will have the following rights and remedies:

(a) The Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of and interest on Bonds outstanding under the Indenture, including any and all such actions arising under, or by reason of, the Qualified Obligations;

(b) The Trustee may by action at law or in equity require the Bond Bank to account as if it were the trustee of an express trust for the Owners of the Bonds, and may take such action with respect to the Qualified Obligations as the Trustee deems necessary, appropriate and in the best interest of the Bondholders, subject to the terms of the Qualified Obligations.

(c) Upon the filing of a suit or other commencement of judicial proceedings to enforce any rights of the Trustee and of the Bondholders under the Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate under the Indenture and of the Revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment will confer; and

(d) By notice to the Bond Bank and the Attorney General of the State, the Trustee may declare the principal of and accrued interest on all Bonds to be due and payable immediately in accordance with the provisions of the Indenture and the Act. Notwithstanding the foregoing, for so long as the Policy remains in full force and effect, there will not be any acceleration of principal of, or interest on, the Series 2001 A Bonds unless the Trustee receives the express written consent of Series 2001 A Bond Insurer prior to taking such action.

If an Event of Default has occurred, if requested to do so by the Owners of 25% or more in aggregate principal amount of the Bonds Outstanding under the Indenture, and if indemnified as provided in the Indenture, the Trustee will be obligated to exercise one or more of the rights and powers conferred by the Indenture as the Trustee, being advised by counsel, deems most expedient in the interest of the Bondholders; provided, however, that if the Series 2001 A Bond Insurance Policy is in full force and effect the Trustee must receive the express written consent of the Series 2001 A Bond Insurer before exercising any such right or remedy in connection with the Series 2001 A Bonds.

The Owners of a majority in aggregate principal amount of the Bonds Outstanding under the Indenture will have the right, at any time during the continuance of an Event of Default, by a written instrument or instruments executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings under the Indenture. However, such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture. provided, however, that for so long as the Series 2001 A Bond Insurance Policy remains in full force and effect, the Series 2001 A Bond Insurer shall control all proceedings taken in connection with the Series 2001 A Bonds, including, but not limited to, the liquidation of any Investment Securities or Qualified Obligations held under the Indenture.

#### **Waivers of Events of Default**

At its discretion, the Trustee may waive any Event of Default and its consequences, and must do so upon the written request of the owners of (a) more than sixty-six and two-thirds percent (66 2/3%) in aggregate principal amount of all Bonds then Outstanding in the case of default in the payment of principal or interest on the Bonds or (b) more than fifty percent (50%) in aggregate principal amount of all Bonds then Outstanding in the case of any other default. However, there may not be waived (i) any Event of Default in the payment of the principal of any Bond then Outstanding under the Indenture at the specified date of maturity or (ii) any Event of Default in the payment when due of the interest on any Bond then Outstanding under the Indenture unless, prior to the waiver, all arrears of interest or principal due, as the case may be, with interest on overdue principal at the rate borne by such Bond, and all expenses of the Trustee in connection with the Event of Default have been paid or provided for. In case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default is discontinued or abandoned or determined adversely, then the Bond Bank, the Trustee and the



Bondholders will be restored to their former respective positions and right under the Indenture. No waiver or rescission will extend to any subsequent or other Event of Default or impair any right consequent thereon. Notwithstanding the foregoing, for so long as the Series 2001 A Bond Insurance Policy remains in full force and effect, the Series 2001 A Bond Insurer shall control all proceedings and the exercise of all rights or remedies with respect to the Series 2001 A Bonds.

### **Rights and Remedies of Owners of Bonds**

No Owner of any Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of the Indenture or for the execution of any trust thereof or for any other remedy under the Indenture, unless (a) an Event of Default has occurred and the Owners of not less than 25% in aggregate principal amount of Bonds then Outstanding have made written request to the Trustee and have offered the Trustee reasonable opportunity either to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name, (b) such Owners of Bonds have offered to indemnify the Trustee, as provided in the Indenture, and (c) the Trustee has refused, or for 60 days after receipt of such request and offer of indemnification has failed, to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name. All proceedings at law or in equity must be carried out as provided in the Indenture and for the equal benefit of the Owners of all Outstanding Bonds. However, nothing contained in the Indenture will affect or impair the right of any Owner of Bonds to enforce the payment of the principal of and interest on any Bond at and after its maturity, or the limited obligation of the Bond Bank to pay the principal of and interest on each of the Bonds to the respective owners of the Bonds at the time and place, from the source and in the manner expressed in the Bonds. Notwithstanding the foregoing, for so long as the Series 2001 A Bond Insurance Policy remains in full force and effect, the Series 2001 A Bond Insurer shall control all proceedings and the exercise of all rights or remedies with respect to the Series 2001 A Bonds.

### **Series 2001 A Bond Insurer as the Sole Bondholder**

For so long as the Policy remains in full force and effect, the Series 2001 A Bond Insurer will be deemed by the Trustee and the Bond Bank to be the sole holder or owner of the Series 2001 A Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Series 2001 A Bonds are entitled to take under the Indenture upon the occurrence of an Event of Default.

### **Supplemental Indentures**

The Bond Bank and the Trustee may, without the consent of or notice to any of the owners of Bonds, enter into an indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

- (a) To cure any ambiguity, formal defect or omission in the Indenture;
- (b) To grant to or confer upon the Trustee for the benefit of the owners of Bonds then Outstanding any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee, or to make any change which, in the judgment of the Trustee, does not materially and adversely affect the interests of the Bondholders and does not otherwise require the unanimous consent of all Bondholders under the Indenture;
- (c) To subject to the lien and pledge of the Indenture additional Revenues, properties or collateral;
- (d) To modify, amend or supplement the Indenture or any supplemental indenture in order to permit qualification under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if the Bond Bank and the Trustee so determine, to add to the Indenture or to any supplemental indenture such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939 or any other federal or state statute;

(e) To give evidence of the appointment of a separate or co-trustee, or the succession of a new Trustee, Bond Registrar or Paying Agent;

(f) In connection with the issuance of each Series of Bonds permitted by the Indenture, other than the Series 2001 A Bonds;

(g) To provide for the refunding of all or a portion of the Bonds; and

(h) To amend the Indenture to permit the Bond Bank to comply with any covenants contained in any Supplemental Indenture with respect to compliance with future federal or State tax laws.

With the exception of supplemental indentures for the purposes set forth in the preceding paragraph and subject to the terms of the Indenture, the owners of not less than a majority of the aggregate principal amount of the Bonds then Outstanding which are affected (other than Bonds held by the Bond Bank) will have the right from time to time to consent to and approve the execution by the Bond Bank and the Trustee of any supplemental indenture or indentures deemed necessary and desirable by the Bond Bank of Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture, but only with the express written consent of the Series 2001 A Bond Insurer for so long as the Series 2001 A Bond Insurance Policy remains in full force and effect;. However, no supplemental indenture may permit or be construed as permitting, without the consent of the owners of all Bonds then Outstanding under the Indenture Bonds and the Series 2001 A Bond Insurer for so long as the Series 2001 A Bond Insurance Policy remains in full force and effect, (a) an extension of the stated date for maturity or redemption or a reduction in the principal amount of or redemption premium, or reduction on the rate or extension of the time of payment of the interest on, any Bonds, (b) the creation of any lien on the Trust Estate or any part thereof pledged under the Indenture prior to or on a parity with the lien of the Indenture other than alien ratably securing all of the Bonds Outstanding under the Indenture, (c) a reduction in the aggregate principal amount of the Bonds the owners of which are required to consent to such supplemental indenture, (d) the creation of privilege, priority or preference of any Bond or Bonds over any other Bond or Bonds, (e) a reduction in the Reserve Requirement, or (f) any amendment or modification of the trusts, powers, rights, obligations, duties, remedies and immunities of the Trustee without the written consent of the Trustee.

#### **Additional Provisions Regarding The Series 2001 A Bond Insurer**

For so long as the Series 2001 A Bond Insurance Policy remains in full force and effect the following provisions will also apply:

(a) The Series 2001 A Bond Insurer will be deemed by the Trustee and the Bond Bank as the sole holder of the Series 2001 A Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action related to removal of the Trustee or appointment of a successor Trustee that the holders of the Series 2001 A Bonds are entitled to take pursuant to the Indenture. The Trustetee shall take no action except with the consent, or at the direction, of the Series 2001 A Bond Insurer. The maturity of Bonds shall not be accelerated without the consent of the Series 2001 A Bond Insurer.

(b) No grace period for a covenant default under the Indenture will exceed thirty (30) days, nor be extended for more than sixty (60) days, without the prior express written consent of the Series 2001 A Bond Insurer.

(c) Notwithstanding anything in the Indenture to the contrary, the Trustee may be removed at any time with or without cause by instrument in writing delivered by the Trustee and the Bond Bank and signed by the Series 2001 A Bond Insurer.

(d) The Series 2001 A Bond Insurer will be included as a third party beneficiary to the Indenture.

(e) No modification, amendment or supplement to the Indenture or the Qualified Obligations will become effective until the Series 2001 A Bond Insurer provides the Trustee and the Bond Bank with its express written consent to such modification, amendment or supplement.

(f) The rights granted to the Series 2001 A Bond Insurer under the Indenture to request, consent to or direct any action are rights granted to the Series 2001 A Bond Insurer in consideration of its issuance of the Series 2001 A Bond Insurance Policy. Any exercise by the Series 2001 A Bond Insurer of such rights is merely an exercise of the Series 2001 A Bond Insurer's contractual rights and should not be construed or deemed to be taken for the benefit or on behalf of the owners of the Series 2001 A Bonds nor does such action evidence any position of the Series 2001 A Bond Insurer, positive or negative, as to whether the consent of the owners of the Series 2001 A Bonds is required in addition to the consent of the Series 2001 A Bond Insurer.

(g) Payments by the Series 2001 A Bond Insurer under the Series 2001 A Bond Insurance Policy shall not be deemed paid for purposes of the Indenture and shall remain Outstanding and continue to be due and owing until paid by the Bond Bank in accordance with the Indenture.

(h) The Indenture will not be discharged until all amounts due or to become due to the Series 2001 A Bond Insurer have been paid in full or duly provided for.

(i) The Series 2001 A Bond Insurer shall, to the extent it makes payment of principal of or interest on the Series 2001 A Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Series 2001 A Bond Insurance Policy.

(j) The Series 2001 A Bond Insurer will be provided with the following information:

- (1) Annual audited financial statements of the Bond Bank, if any, within two hundred ten (210) days after the end of each Fiscal Year;
- (2) The Bond Bank's annual budget within thirty (30) days after its adoption.
- (3) Notice of any draw upon the Debt Service Reserve Fund within two (2) days after knowledge thereof other than (i) withdrawals of amounts in excess of the Reserve Requirement, or (ii) withdrawals in connection with a refunding of the Bonds.
- (4) Notice of the occurrence of any default known to the Trustee within five days after knowledge thereof by the Trustee.
- (5) Prior notice of any advance refunding or redemption of any of the Series 2001 A Bonds, including the principal amount, maturities and CUSIP numbers of such Series 2001 A Bonds.
- (6) Notice of any resignation or removal of the Trustee, Paying Agent or Bond Registrar and the appointment of, and acceptance of duties by, any successor thereto.
- (7) Notice of the commencement of any proceeding by or against the Bond Bank or any Qualified Entity (if known by the Bond Bank) commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding").
- (8) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Series 2001 A Bonds.
- (9) All reports, notices and correspondence delivered under the Indenture or the Qualified Obligations.

(k) In addition to the provisions set forth in the Indenture regarding the issuance of Bonds, subsequent to the issuance of the Series 2001 A Bonds, no other Bonds may be issued under the Indenture (1) should any Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) have occurred and be continuing unless such default shall be cured upon such issuance, and (2) unless the Debt

Service Reserve Fund is, or will be upon the issuance of the Bonds, fully funded at the Reserve Requirement, unless in either case, the Series 2001 A Bond Insurer waives such conditions.

(l) No contract will be entered into nor any action taken by either the Bond Bank or the Trustee which will impair or prejudice the rights of the Series 2001 A Bond Insurer or the security for or sources of payment of the Series 2001 A Bonds, unless the Series 2001 A Bond Insurer provides its prior express written consent to such contract.

## **Appendix E**

### **Definitions**

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## **APPENDIX E**

### **DEFINITIONS**

The following are definitions of certain terms used in the Official Statement, including its Appendices:

“Accounts” means the accounts created pursuant to the Indenture.

“Act” means the provisions of Indiana Code 5-1.5-1 et seq., as from time to time amended.

“Authorized Officer” means the Chairman, Vice Chairman or Executive Director of the Bond Bank or such other person or persons who are duly authorized to act on behalf of the Bond Bank.

“Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as amended from time to time.

“Bond Bank” means the Indiana Bond Bank, a public body corporate and politic, not a state agency, but an independent public instrumentality of the State exercising essential public functions, or any successor to its functions.

“Bondholder” or “holder of Bonds” or “owner of Bonds” or any similar term means the registered owner of any Bond, including the Bond Bank, and any purchaser of Bonds being held for resale, including the Bond Bank.

“Bond Issuance Expense Account” means the account by that name created by Section 6.02 of the Indenture.

“Bonds”, collectively, means the Series 2001 A Bonds and any Refunding Bonds.

“Cash Flow Certificate” means a certificate prepared by an accountant or firm of accountants in accordance with the Indenture concerning anticipated Revenues and payments.

“Code” means the Internal Revenue Code of 1986 in effect on the date of issuance of the Series 2001 A Bonds, and the applicable regulations or rulings promulgated or proposed thereunder, and any successor thereto.

“Costs of Issuance” shall mean items of expense payable or reimbursable directly or indirectly by the Bond Bank and related to the authorization, sale and issuance of Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of the Trustee, underwriter's discounts, legal fees and charges, professional consultants' fees, costs of credit ratings, fees and charges for execution, transportation and safekeeping of Bonds, bond or reserve fund insurance premiums, credit enhancements (including Credit Facilities) or liquidity facility fees, and other costs, charges and fees in connection with the foregoing.

“Counsel” means an attorney duly admitted to practice law before the highest court of any state and approved by the Bond Bank.

“Credit Facility” means any letter of credit, revolving credit agreement, surety bond, insurance policy or other agreement or instrument.

“Credit Provider” means the issuer of any Credit Facility and its successor in such capacity and their assigns. To qualify under the Indenture, the Credit Provider providing such Credit Facility shall be either:

- (i) an insurer whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issues results in such issues being rated in a rating category that is at least as high as the rating assigned to the Bonds by the rating agency or agencies rating the Bonds; or

(ii) a bank or trust company which at the time of issuance of such Credit Facility has an outstanding, unsecured, uninsured and unguaranteed debt issue rated in a rating category that is at least as high as the rating assigned to the Bonds by the rating agency or agencies rating the Bonds.

“Debt Service Reserve Fund” means the fund by that name created by the Indenture.

“Default” means an event or condition the occurrence of which, with the lapse of time or the giving of notice or both, would become an Event of Default under the Indenture.

“Depository Company” or “DTC” means the Depository Trust Company, New York, New York, and its successors and assigns, including any surviving, resulting or transferee corporation, or any successor corporation that may be appointed in a manner consistent with the Indenture and shall include any direct or indirect participants of the Depository Trust Company.

“Event of Default” means any occurrence or event specified in the Indenture.

“Fees and Charges” means fees and charges established by the Bond Bank from time to time pursuant to the Act which are payable by the Qualified Entity.

“Fiscal Year” means the twelve month period from July 1 through the following June 30.

“Funds” means the funds created pursuant to the Indenture, except for the Rebate Fund.

“General Account” means the account by that name created by of the Indenture.

“General Fund” means the fund by that name created by the Indenture.

“Governmental Obligations” means (i) direct obligations of the United States of America or obligations the timely payment of the principal of and interest on which are unconditionally guaranteed by the United States of America, and (ii) obligations of any state of the United States or any political subdivision thereof, the full payment of principal of, premium, if any, and interest on which are unconditionally guaranteed or insured by the United States of America.

“Indenture” means the Indenture of Trust, dated as of June 1, 2001 between the Indiana Bond Bank and National City Bank of Indiana, and all supplements and amendments thereto entered into pursuant thereto.

“Interest Payment Date” means any date on which interest is payable on the Bonds.

“Investment Agreement” means the Investment Agreement dated as of July 24, 2001, between Bayerische Landesbank Girozentrale and the Trustee, as further identified in the Indenture.

“Investment Earnings” means earnings and profits (after consideration of any accrued interest paid and/or amortization of premium or discount on the investment) on the moneys in the Funds and Accounts established under the Indenture, except the Rebate Fund.

“Investment Securities” means any of the following: (i) Governmental Obligations; (ii) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies: Export-Import Bank, Farmers Home Administration, Federal Financing Bank, Federal Housing Administration, Government National Mortgage Association, Maritime Administration, Public Housing Authorities, Banks for Cooperatives or Farm Credit Banks; (iii) certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank, savings and loan association and mutual savings bank, including the Trustee, each fully insured by the Federal Deposit Insurance Corporation; (iv) bankers’ acceptances or certificates of deposit of commercial banks or savings and loan associations, including the Trustee, which mature not more than one year after the date of purchase; provided the banks or savings and loan associations (as opposed to their holding companies) are rated for unsecured debt at the time of purchase of the investments in the single highest full classification established by Moody’s and S&P; (v) commercial paper rated at the time of purchase in the single highest full classification by



Moody's and S&P and which matures not more than 270 days after the date of purchase; (vi) investment agreements of financial institutions which are rated in one of the two highest full rating categories by S&P, and if the Series 2001 A Bond Insurance Policy is still in full force and effect, are approved by the Series 2001A Bond Insurer; (vii) repurchase agreements with any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, each of which agreement is secured by any one or more of the securities described in clauses (i), (ii) or (iii) above, and if the Series 2001 A Bond Insurance Policy is still in full force and effect, are approved by the Series 2001 A Bond Insurer; provided, underlying securities are required by the repurchase agreement to be continuously maintained at a market value not less than the amount so invested; and (viii) shares of a money market mutual fund registered under the Investment Company Act of 1940, as amended, whose shares are registered under the Securities Act of 1933, as amended, or units of a common trust fund, which is rated by Moody's or S&P in one of the two highest full rating categories assigned by such Rating Agencies to obligations of that nature and which invests its assets solely in obligations described in (i) and (vii) above.

"Moody's" means Moody's Investors Service or any successor thereof which qualifies as a "Rating Agency" under the Indenture.

"Notice Address" means, with respect to a Qualified Entity, the Qualified Entity's address given in connection with the sale of its Qualified Obligation to the Bond Bank, and, with respect to the Bond Bank, the Trustee and the Series 2001 A Bond Insurer:

Bond Bank:	Indiana Bond Bank Attention: Chairman 2980 Market Tower Indianapolis, IN 46204
Trustee:	National City Bank of Indiana 101 West Washington Street Suite 655 S Indianapolis, IN 46255
Series 2001 A Bond Insurer:	Financial Security Assurance Inc. 350 Park Avenue New York, NY 10022-6022 Attention: Managing Director - Surveillance

In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel at the address referenced for the Series 2001 A Bond Insurer and shall be marked "URGENT MATERIAL ENCLOSED."

"Opinion of Bond Counsel" means an opinion of Counsel by a nationally recognized firm experienced in matters relating to the tax exemption for interest payable on obligations of States and their instrumentalities and political subdivisions under federal law and which is acceptable to the Bond Bank and the Trustee.

"Opinion of Counsel" means a written opinion of Counsel addressed to the Trustee, for the benefit of the owners of the Bonds, who may (except as otherwise expressly provided in the Indenture) be Counsel to the Bond Bank or Counsel to the owners of the Bonds and who is acceptable to the Trustee.

"Outstanding" or "Bonds Outstanding" means all Bonds which have been authenticated and delivered by the Trustee under the Indenture, including Bonds held by the Bond Bank, except:

- (1) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;

(2) Bonds deemed paid under the Indenture; and

(3) Bonds in lieu of which other Bonds have been authenticated under the Indenture or under any Supplemental Indenture.

"Paying Agent" means National City Bank of Indiana, a national banking association organized and existing under the laws of the United States, or any other successor thereof under the Indenture.

"Principal Payment Date" means the maturity date of any Bond.

"Program" means the program for purchasing Qualified Obligations by the Bond Bank pursuant to the Act.

"Program Expenses" means all of the fees and expenses of the Trustee and costs of determining the amount rebatable, if any, to the United States of America under the Indenture, all to the extent properly allocable to the Program.

"Purchase Agreement" means a Qualified Entity Purchase Agreement between the Bond Bank and a Qualified Entity, pursuant to which one or more Qualified Obligations are sold to the Bond Bank.

"Purchase Contract" means the Contract of Purchase, for the Series 2001 A Bonds between the Bond Bank and the underwriter, dated July 12, 2001, the form of which was approved at the meeting of the Board of Directors of the Bond Bank on June 12, 2001.

"Qualified Entity" means an entity defined in IC 5-1.5-1-8, as amended from time to time, including the Series 2001 A Qualified Entities.

"Qualified Obligation" means a Security (as that term is defined in the Act), including the Series 2001 A Qualified Obligations, which has been acquired by the Bond Bank pursuant to the Indenture.

"Qualified Obligation Interest Payment" means that portion of a Qualified Obligation Payment which represents the interest due or to become due on a Qualified Obligation held by the Trustee pursuant to the Indenture.

"Qualified Obligation Payment" means the amounts paid or required to be paid, from time to time, for principal and interest on a Qualified Obligation held by the Trustee pursuant to the Indenture.

"Qualified Obligation Principal Payment" means that portion of a Qualified Obligation Payment which represents the principal due or to become due on a Qualified Obligation held by the Trustee pursuant to the Indenture.

"Rebate Fund" means the fund by that name created by the Indenture.

"Record Date" means, with respect to any Interest Payment Date, the fifteenth day of the calendar month immediately preceding such Interest Payment Date.

"Redemption Account" means the account by that name created by the Indenture.

"Redemption Price" means, with respect to any Bond, the principal amount of the Indenture, plus the applicable premium, if any, payable upon redemption prior to maturity.

"Refunding Bonds" means Bonds issued pursuant to the Indenture hereof and any Supplemental Indenture.

"Registrar" means National City Bank of Indiana, a national banking association organized and existing under the laws of the United States, or any successor thereto under the Indenture.

“Reserve Requirement” means the maximum annual debt service on the Bonds in the present or any succeeding Fiscal Year. The initial deposit to the Debt Service Reserve Fund will be \$705,500.00, which equals 10% of the stated principal amount of the Bonds. Interest on this amount will accumulate in the Debt Service Reserve Fund (net of any required transfers to the Rebate Fund) until the balance within the Debt Service Reserve Fund is equal to the initial Reserve Requirement of \$846,491.26. Thereafter, such amount will be decreased on the first day of each fiscal year to the maximum annual debt service on the Outstanding Bonds in the present or any succeeding Fiscal Year.

“Revenues” means the Funds and Accounts and all income, revenues and profits of the Funds and Accounts referred to in the granting clauses of the Indenture including, without limitation, all Qualified Obligation Payments.

“S&P” means Standard & Poor’s Ratings Group, a Division of the McGraw-Hill Company, or any successor thereof which qualifies as a “Rating Agency” hereunder.

“Series of Bonds” or “Bonds of a Series” or “Series” or words of similar meaning means any Series of Bonds authorized by the Indenture or by a Supplemental Indenture.

“Series 2001 A Bond Insurance Policy” means the municipal bond insurance policy issued by the Series 2001 A Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Series 2001 A Bonds when due.

“Series 2001 A Bond Insurer” means Financial Security Assurance Inc.

“Series 2001 A Bonds” means the Indiana Bond Bank Special Program Bonds, Series 2001 A issued pursuant to the Indenture.

“Series 2001 A Qualified Entities” means Cowan Community School Corporation, Southeast Dubois County School Corporation, City of Fort Wayne, Allen County and the Allen County Parking Facility Building Corp.

“Series 2001 A Qualified Obligations” means the Qualified Obligations listed and described on Appendix B attached hereto.

“State” means the State of Indiana.

“Supplemental Indenture” means an indenture supplemental to or amendatory of the Indenture, executed by the Bond Bank and the Trustee in accordance with the Indenture.

“Trustee” means National City Bank of Indiana, a national banking association organized and existing under the laws of the United States of America with its principal corporate trust office located in Indianapolis, Indiana, or any successor thereto under the Indenture.

“Trust Estate” means the property, rights, and amounts pledged and assigned to the Trustee pursuant to the granting clause of the Indenture.

“Underwriter” means with regard to the Series A Bonds, Dain Rauscher Incorporated.

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## **Appendix F**

### **Specimen Municipal Bond Insurance Policy**

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**FINANCIAL  
SECURITY  
ASSURANCE®**

## **MUNICIPAL BOND INSURANCE POLICY**

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No.: -N

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security") for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment on its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)



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